



**Coalition for
Fair Software
Licensing**

Breaking Vendor Lock:

Why California Needs a Bridge Year
Before Renewing Microsoft

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About the Author



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Executive Summary

California is weeks away from renewing a five-year enterprise agreement for Microsoft, locking 250,000 state employees into a single vendor's ecosystem until 2031. Over the previous five years, the state spent nearly \$1 billion through a single Microsoft reseller, while total Microsoft expenditures exceeded \$1.2 billion. No competitive bids. No serious alternatives considered. No understanding of what the state actually uses, what it pays for, or what it truly needs.

This is procurement on autopilot. And taxpayers will foot the bill.

The timing couldn't be worse. California faces an \$18 billion budget shortfall this fiscal year potentially ballooning to \$35 billion by 2027-28. The state has run deficits for each of the last three years. Yet somehow, renewing a bloated software contract without competitive scrutiny is sailing through unchallenged.

The process has been opaque. Competitive vendors report being shut out entirely. The state's "market research" appears limited to Microsoft-authorized resellers: companies that only sell Microsoft products. This is not competition—it is theater. Microsoft has already won before the contest begins.

How much of this Microsoft spending does the state actually need? A senior Microsoft representative told the California legislature that 98% of state workers are licensed with what the company calls its G5 suite, the most expensive offering in Microsoft's public sector catalogue, when most need only G3's core productivity applications.

Even G5's premium security tools sit unused by a quarter of the state's employees. Using Microsoft's own guidance for conservative assumptions, that's an estimated \$12 million in taxpayer revenue wasted in shelfware every year. And that's just the waste we can measure. The specialized features—litigation support, business intelligence, enterprise telephony—almost certainly have utilization rates approaching zero.

The broader cost of over-provisioning extends beyond shelfware. At standard government pricing tiers, the difference between G5 and G3 licensing is up to \$34 per user per month; even assuming a generous 50% volume discount, the differential remains at least \$204 annually. Across 250,000 employees, California pays somewhere between \$51 million and \$80 million more annually for G5 than it would for G3, whether or not employees use the premium features. California is paying Cadillac prices for a fleet it barely drives.

This is not an oversight. Microsoft designed it this way. G5 bundles 30+ unrelated tools into a single take-it-or-leave-it package. It isn't convenience; it's a trap. The mega-bundle obscures pricing, blocks competition from specialized vendors, and funnels customers toward Microsoft's Azure cloud. International regulators have concluded that some of these same practices Microsoft has been employing for decades are anticompetitive. Yet, California is about to reward the company with another half-decade commitment without even a cursory understanding of the long-term impact on spending or the ability to choose alternative technology providers throughout the stack.

There is a better path. California doesn't face a binary choice between a five-year renewal and a chaotic migration by March. A one-year bridge contract would preserve the state's options while giving it time to fully understand the limitations of the contract, and the needs of the state workforce. Time is needed to unpack utilization data, conduct genuine market research, and determine whether this colossal bundle serves California's needs or just Microsoft's revenue targets.

The leverage exists. The federal Department of Transportation recently achieved a 71% discount by migrating to Google Workspace. With a \$13 billion IT budget, California spends more on technology than most individual federal agencies, placing it among the top tier of government IT purchasers nationwide. The question is whether California will use it, or take the easy path: slipstreaming into another five years of mounting costs and deepening lock-in.

Hundreds of millions of California taxpayer dollars hang in the balance. The clock is ticking. The time to slow down is now.

Introduction

The California Department of Technology is preparing to renew a five-year enterprise agreement with Microsoft covering the state's 250,000 employees originally valued at over \$300 million. That dominant contract vehicle, held by Microsoft reseller Crayon¹, has alone generated nearly \$1 billion in spending over five years and total Microsoft expenditures across all contracts exceed \$1.2 billion². The original Crayon contract expires March 31, 2026, just weeks away from a decision that will lock California into another half-decade of software spending with a single vendor.

This commitment comes at a precarious moment. California has faced budget deficits three years running: \$27 billion in 2023–24, \$55 billion in 2024–25, and \$15 billion in 2025–26³. The Legislative Analyst's Office projects an \$18 billion shortfall in the coming fiscal year, a gap that could balloon to \$25 billion by 2027–28⁴. In this fiscal environment, locking into another five years of over-provisioned software licensing is not merely imprudent; it is potentially reckless.

This paper argues that California should not sign that contract.

Not yet. Not without understanding the full scope of what the state is buying, what it actually needs, and what alternatives exist. The prudent path is a one-year bridge contract that preserves California's options while the state prepares for genuine competition.

A Flawed Process

The process leading to this renewal has been troubling. Competitive vendors report a lack of transparency about the state's requirements, timeline, and evaluation criteria. To the extent California conducted market research, it appears limited to Microsoft-authorized resellers – companies focused on selling Microsoft products and nothing else.

This is not meaningful competition. The outcome is predetermined before the first bid is submitted. When a procurement is structured so that only one brand can win, the subsequent contest among resellers is theater. The resellers compete over a sliver of margin, often as low as one to two percent of the transaction, while Microsoft collects the lion's share at whatever price it chooses to set. Microsoft faces no threat of losing.

I have called these "zombie competitions" in previous research on federal software procurement⁵. The government meets the legal requirements of competition law, but the competition is hollow, a formalistic exercise that delivers none of the savings genuine competition provides. California appears to be walking a well worn path, and taxpayers will bear the cost.

California is not alone in facing these concerns. In Bavaria, Germany, a similar 1 billion euro state government Microsoft contract is currently under scrutiny, drawing sharp criticism for lack of competitive tender, absence of transparent examination of alternatives, and failure to involve local industry⁶. The parallels to California's situation are noteworthy.

¹ California Department of Technology, *Microsoft Software Licensing Agreement, Contract No. CON 20-0000202 A1* (Crayon Software Experts LLC, 2021) (on file with author).

² See *infra* note 8 and 9.

³ California Legislative Analyst's Office, "The 2026–27 Budget: California's Fiscal Outlook," November 2025, <https://lao.ca.gov/Publications/Report/5091> (stating "18 Billion Budget Problem in 2025–26; The Legislature has needed to address budget problems for three years in a row. The state solved a \$27 billion deficit in 2023–24, a \$55 billion deficit in 2024–25, and a \$15 billion deficit in 2025–26 (in addition to roughly \$28 billion in proactive budget-balancing actions taken the year before). At the time of the 2025–26 Budget Act, the administration anticipated the state would face an almost \$13 billion budget problem in 2026–27).

⁴ *Id.*

⁵ Michael Garland, "Defeating Vendor Lock-In and Gaining Buying Power: Why the U.S. Government Must Consolidate Expertise to Fix its Broken Software Procurement System" (2024) available at www.garlandconsult.com

⁶ "Cloud: Row in Bavaria over billion-euro Microsoft contract without tender," Heise Online, December 14, 2025, <https://www.heise.de/en/news/Cloud-Row-in-Bavaria-over-billion-euro-Microsoft-contract-without-tender-11114488.html>; see also "Open letter: Free State of Bavaria wants to spend billions on Microsoft," Heinelein Group, November 3, 2025, <https://www.heinelein.group/en/open-letter-state-of-bavaria-wants-to-spend-billions-on-microsoft/>

Evidence of Overspending

In August 2025, Microsoft Cybersecurity Executive Jeffrey Brown testified before a joint hearing of the California State Assembly’s Select Committee on Cybersecurity and Emergency Management. Brown reported that 98% of California’s state workers are licensed with G5, Microsoft’s most expensive and expansive productivity suite, rather than G3, which provides the core Office applications most workers actually use. He added that utilization of G5’s cybersecurity tools had grown from 58% in 2023 to 75% in 2025⁷. Brown presented this as a success story. It is not. Consider what his numbers actually reveal: even the security features, the most critical components of the G5 premium, purchased specifically to protect state systems, are utilized by only three-quarters of licensed employees at peak. Put differently, the cybersecurity tools for roughly 61,250 state workers sit as functional shelfware. Even using conservative assumptions, this represents at least \$12 million annually in unnecessary G5 premium costs, and the true waste is likely far higher.⁸

If California cannot fully deploy the cybersecurity tools it purchased, what is the utilization rate for G5’s more esoteric offerings, including business intelligence platforms, litigation support tools, and enterprise telephony? Microsoft does not say, almost certainly because utilization of these specialized features is miniscule.

The \$12M of annual waste, due to lack of utilization, is likely a drop in the bucket.

The following table summarizes California’s Microsoft spending under the dominant Crayon and other contract series:

California Microsoft Spending: Five-Year Summary

Crayon Contract Series (SCA-19-70-0204) and Other Microsoft Contracts

CONTRACT	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25	TOTAL
-0204C	\$325.1M	\$317.4M	\$73.2M	\$20.7M	\$22.2M	\$758.7M
-0204D		\$7.5M	\$13.5M			\$21.0M
-0204G					\$183.3M	\$183.3M
Crayon Subtotal	\$325.1M	\$324.9M	\$86.7M	\$20.7M	\$205.5M	\$963.0M
Other Contracts	\$47.5M	\$29.8M	\$27.9M	\$56.6M	\$63.2M	\$224.9M
Grand Total	\$372.6M	\$354.7M	\$114.6M	\$77.3M	\$268.7M	\$1,187.9M

Nearly \$1.2 billion in Microsoft spending over 5 years.

Data compiled from California Department of Technology, Software License Program Spending Data. See footnote 8 for methodology and data limitations.

⁷ Jeffrey Brown, Microsoft, Testimony before the California State Assembly Joint Hearing of the Select Committee on Cybersecurity and Emergency Management Committee (Aug. 19, 2025), at 57:02. <https://www.assembly.ca.gov/media/joint-hearing-assembly-select-committee-cybersecurity-and-assembly-emergency-management-committee-20250819>

⁸ This figure is illustrative. Published government pricing varies by product line: Microsoft 365 G5 lists at approximately \$57 per user per month, while Office 365 G5 lists at approximately \$38; corresponding G3 tiers list at approximately \$36 and \$23 respectively. See “Changes Coming to Office 365 Pricing for Government and Non-Profits,” Weston Technology Solutions (July 30, 2024), <https://www.weston-tech.com/blog/office-365-government-and-non-profit-pricing-nce/>; “Office 365 G1 vs G3 vs G5 Government Plan Comparison,” O365CloudExperts, <https://www.o365cloudexperts.com/o365-g1-g3-g5-plan-comparison>. The differential between G5 and G3 thus ranges from \$15 to \$21 per user per month at list pricing, depending on the product line. California’s actual pricing is not publicly disclosed; volume discounts, negotiated terms, and contract-specific arrangements create opacity that makes precise calculations impossible. Assuming discounts ranging from 20% to 50%, the G5-to-G3 premium falls somewhere between \$10 and \$17 per user per month. Brown testified that 25% of employees are not actively using G5’s security features—approximately 61,250 workers. Applied conservatively to these over-provisioned users, this represents at least \$12 million annually in unnecessary premium licensing. The true waste is likely higher: security is the most broadly applicable G5 premium feature; utilization of specialized tools like Power BI, eDiscovery Premium, and Teams Phone is almost certainly far lower.

To be clear, that's \$963M over five years with a single reseller.⁹ There's another \$225M in Microsoft spending via other contracts over the same period.¹⁰ If this is the total inclusive number, leaving nothing out, it equals about \$1.19 billion over five years or about \$952 per employee, per year. That figure significantly exceeds what G5 licensing alone would cost. At government list price, G5 runs \$684 annually.¹¹ If California receives a generous 50% volume discount, G5 would cost approximately \$342 per year, leaving over \$600 per employee flowing somewhere other than G5 licenses. The most likely explanation is that the spending includes substantial Azure consumption, Defender for Cloud, and other services such as SQL server and Windows.¹² But the alternative that California is simply paying far above market rates cannot be ruled out. Either way, the opacity is the problem. Unfortunately, it could be even worse. It would not be surprising if there was shadow Microsoft spending elsewhere that is not properly captured.¹³

Meanwhile, California forgoes the option to procure best-of-breed solutions from focused innovators whose survival depends on building dedicated and sometimes superior products, not tying together sufficient ones. Instead California pays for a colossal bundle of features: partially deployed, underutilized, or never touched at all.

The Over-Provisioning Problem

The over-provisioning problem runs deep. G5 is not a single product. It is a mega-bundle of 30+ distinct tools spanning unrelated functional categories: productivity software, security, compliance, telephony, and analytics, sold as an all-or-nothing package.¹⁴ This monster grouping includes specialized tools that most state workers will never need: Power BI Pro for building interactive data visualizations, eDiscovery Premium for complex litigation support, Audio Conferencing for dial-in meeting access, and Teams Phone for cloud-based PBX capabilities. Does a prison guard need business intelligence dashboards? Does a park ranger require advanced litigation tools? Yet California licenses 98% of its workforce with G5's full feature set, paying a substantial premium for capabilities that sit unused.

The consequences extend beyond wasted license fees. Microsoft's "Listed Provider" licensing restrictions make it significantly more expensive, **sometimes five times more expensive**, to run Microsoft software on competing cloud platforms like Amazon Web Services or Google Cloud.¹⁵ The practical effect is that the G5 omnibus package functions as a funnel: once an organization commits to G5, the path of least resistance for future cloud deployments is Microsoft Azure. Not because Azure offers superior technology or better pricing, but because Microsoft has made the alternatives artificially expensive. At a generous 50% discount, G5 licensing for approximately 250,000 employees would cost roughly \$419 million over five years. California has spent nearly \$1.2 billion. Where is the other \$769 million going? Surely some of it is going into Azure. Ostensibly it may seem like a contract for G5, but in fact, it might be the first step toward locking the state into Azure for years to come, without competitive evaluation.

9 Data compiled from California Department of Technology, Software License Program Spending Data, available at <https://app.powerbigov.us/view?r=eyJrjoiNzI4YjkwZWUuYTAyMy00MDk1WE5YWYtNWMIWWM2NjiiYmMyliwidCI6ImVhNDVmN2IxLTA3ZDctNDIhOCi0iOGYlLTM3MTM2ZWw5MzgyZCJ9>. The database does not provide summary views by product category; these figures required manual compilation across five fiscal years. Contract SCA-19-70-0204C was identified as the primary Microsoft Online Services vehicle by cross-referencing with the Crayon contract (CON 20-0000202). The G5 contract, which had an original maximum spend at \$300,219,584.34 and an effective date of March 1, 2021 through March 31, 2026, appears to be an amendment to Contract SCA-19-70-0204C though the terms are not available on the California procurement website. It should also be noted that the database does not disclose what products are purchased under each contract number so it is unclear to what extent there was overspend on the existing contract. The Crayon contract covers "Microsoft Online Services" broadly, which includes the bulk of G5 licensing (per the amendment), Azure consumption, and other Microsoft products. The spending cannot be fully disaggregated due to this opacity, itself an illustration of the transparency concerns this paper raises.

10 See Software License Program Spending Data, *Id.*

11 See *supra* note 8.

12 While most Microsoft enterprise agreements are driven by their anchor and market-dominant products, a typical agreement may provide a buyer access to the entire portfolio, which spans hundreds of products, too many to list here.

13 This is not a knock on California. Many public sector spending databases are missing elements of spend through miscoding and other human error.

14 Microsoft, "Microsoft 365 and Office 365 Plan Options," Microsoft Learn, <https://learn.microsoft.com/en-us/office365/servicedescriptions/office-365-platform-service-description/office-365-plan-options>

15 Google Cloud, "Filing EU Complaint Against Microsoft Licensing," Google Cloud Blog (Sept. 25, 2024), <https://cloud.google.com/blog/topics/inside-google-cloud/filing-eu-complaint-against-microsoft-licensing> (stating that "Microsoft's own statements indicate that customers who want to move their workloads to [AWS or Google Cloud] would need to pay up to five times more"); Competition and Markets Authority, "Cloud Services Market Investigation: Final Report" (July 31, 2025), https://assets.publishing.service.gov.uk/media/688b8891fdde2b8f73469544/final_decision_report.pdf (finding that Microsoft charges cloud competitors wholesale prices for Windows Server "dramatically higher, by orders of magnitude" than its own Azure pricing).

Microsoft 365 Government: G3 vs. G5

What California Pays For vs. What Most Workers Need

Pricing Context: At published government list prices, G5 costs \$57/user/month versus \$23 for G3 – a \$34 monthly premium for the specialized features. California’s negotiated rates are not public, but even assuming a generous 50% volume discount, the G5 premium represents approximately \$204 per user annually. Applied to the 25% of employees not using G5’s security features, this represents at least \$12 million in annual waste.

G3: Core Productivity Suite

What most government workers use daily

- Word, Excel, PowerPoint, Outlook
- Email (100 GB mailbox)
- Microsoft Teams
- OneDrive (5TB storage)
- SharePoint
- Exchange Online Protection
- Data Loss Prevention
- eDiscovery (Standard)
- Viva Insights (Personal)

G5 Adds: Specialized Tools

Premium features beyond G3

- **Power BI Pro** – Business intelligence dashboards
- **eDiscovery (Premium)** – Advanced litigation support
- **Audio Conferencing** – Dial-in meeting access
- **Phone System** – Cloud PBX capabilities
- **Microsoft Defender for Office 365** – Advanced threat protection
- **Defender for Cloud Apps** – Cloud app security

The Question: Does a prison guard need Power BI Pro? Does a park ranger need eDiscovery Premium? Does a DMV clerk need a cloud PBX phone system?

California licenses 98% of its 250,000 state employees with G5. Microsoft’s Jeff Brown testified that only 75% of G5 security features are actually utilized – and that’s the *most critical* category. Utilization of specialized tools like Power BI is almost certainly far lower.

Feature comparison: Microsoft Learn, “Office 365 Government Service Description” (2024).
Government Pricing: Western Technology Solutions; O365CloudExperts (2024). See footnote 8 for calculation methodology.

The costs don’t stop at the contract price. G5’s included security tools do not cover protection for cloud infrastructure—that capability requires additional consumption-based purchases that scale unpredictably with usage.¹⁶ Industry analysts note these costs “add up fast, often surprising teams who assumed security was simply built-in.”¹⁷ Organizations can choose best-of-breed alternatives from focused security vendors, but the contracting convenience of staying within Microsoft’s ecosystem where add-ons are just a click away steers most toward the incumbent. The funnel tightens.

Meanwhile, the security case for this consolidation is hardly self-evident. In 2025 alone, Microsoft patched over 1,200 vulnerabilities across its product portfolio, including 41 actively exploited zero-days.¹⁸ As of the publication of this paper, Microsoft has had eight actively exploited zero-days in 2026, including on the Office Suite and Microsoft Word.¹⁹ Organizations relying on built-in “good enough” security tools from a vendor with this track record may find themselves paying premium prices for protection that dedicated security firms do better because it’s their core mission.

A Better Path Exists

While California prepares to renew, the federal government has demonstrated what competitive procurement can achieve. In September 2025, the Department of Transportation (DOT) began migrating 50,000 employees to Google Workspace, deploying foundational systems in just 22 days. The migration leveraged a 71% discount negotiated through the General Services Administration’s

¹⁶ Defender for Cloud consumption pricing not included in E5/G5. G5 includes “Microsoft Defender for Cloud Apps,” a tool for monitoring SaaS application usage. It does not include “Microsoft Defender for Cloud,” the separately priced product that protects Azure infrastructure. The similarity in naming—whether by accident or design—obscures this significant gap in coverage, <https://azure.microsoft.com/en-us/pricing/details/defender-for-cloud/>

¹⁷ Atonement Licensing, “Microsoft Security Solutions Licensing: Navigating Defender and Sentinel Costs” (Sept. 14, 2025), <https://atonementlicensing.com/microsoft-security-solutions-licensing-navigating-defender-and-sentinel-costs/>

¹⁸ Ionut Arghire, “Microsoft Patches 57 Vulnerabilities, Three Zero-Days,” SecurityWeek (Dec. 10, 2025), <https://www.securityweek.com/microsoft-patches-57-vulnerabilities-three-zero-days/> (reporting Microsoft patched roughly 1,200 vulnerabilities in 2025); SOC Prime, “CVE-2026-21509” (Jan. 28, 2026) (citing Tenable data showing 41 Microsoft zero-days in 2025, 24 actively exploited); see also *infra* note 19 (describing Russian state-sponsored exploitation of CVE-2026-21509 against Ukrainian and EU targets within days of disclosure).

(GSA) “OneGov” strategy, treating government as a single large buyer.²⁰ Whether Google was the right vendor for DOT is less important than what the migration proved: large-scale transitions are feasible, switching costs are manageable, and leveraging buying power drives substantial savings.

California does *not* face a binary choice between renewing with Microsoft for five years or executing a transformational migration by March 2026.

There is a third path: a one-year bridge contract that preserves optionality while California prepares for a genuine competition.

A bridge year would allow California to demand comprehensive utilization data from Microsoft—data the state appears to lack. It would provide time to conduct transparent market research that includes competitive vendors, not just Microsoft resellers. It would enable the state to evaluate whether this sprawling bundle serves California’s actual needs or merely Microsoft’s revenue targets. It would allow assessment of best-of-breed alternatives in security, collaboration, and analytics, many from California’s own technology sector.

What This Paper Provides

This paper provides a roadmap for that process. It documents how Microsoft achieved and maintains its dominance through dubious licensing practices—practices that are under investigation by competition authorities around the world. It explains the hidden costs embedded in the G5 mega-bundle, including the Azure funnel that extends Microsoft’s lock-in beyond productivity software into cloud infrastructure. It examines the emerging AI (Copilot) lock-in that could make future switching not merely expensive but potentially impossible. It offers an incremental framework for reform: immediate tactics to strengthen California’s negotiating position and longer-term structural changes to align procurement incentives with taxpayer interests.

The upcoming renewal is not just about productivity software. It is a test of whether California will allow vendor lock-in to dictate procurement outcomes, locking out leading California-based software companies in the process, or whether the largest state government in America will demand genuine competition and fiscal accountability.

Hundreds of millions of dollars are in play. The time for sensible consideration is now.

19 Lawrence Abrams, “Microsoft patches actively exploited Office zero-day vulnerability,” BleepingComputer (Jan. 27, 2026), <https://www.bleepingcomputer.com/news/microsoft/microsoft-patches-actively-exploited-office-zero-day-vulnerability/> (describing CVE-2026-21509, an actively exploited zero-day affecting Microsoft Office 2016, 2019, LTSC 2021, LTSC 2024, and Microsoft 365 Apps for Enterprise). Within days of disclosure, Russian state-sponsored hackers (APT28/Fancy Bear) weaponized this vulnerability to target Ukrainian government agencies and EU organizations. See Kevin Poireault, “Fancy Bear Exploits Microsoft Office Flaw in Ukraine, EU Cyber-Attacks,” Infosecurity Magazine (Feb. 2, 2026), <https://www.infosecurity-magazine.com/news/fancy-bear-exploits-office-flaw/>; “Hackers Exploiting Microsoft Office 0-day Vulnerability to Deploy Malware,” Cybersecurity News (Feb. 2, 2026), <https://cybersecuritynews.com/microsoft-office-0-day-vulnerability-exploited/>; “Microsoft reports six actively exploited zero days in Patch Tuesday,” Techzine (Feb. 11, 2026), <https://www.techzine.eu/news/security/138694/microsoft-reports-six-actively-exploited-zero-days-in-patch-tuesday/>.

20 Jim Kelly, “Driving the Future of Government: U.S. Department of Transportation Selects Google Workspace as New Agency-Wide Collaboration Suite,” Google Cloud Blog (Dec. 5, 2025), <https://cloud.google.com/blog/topics/public-sector/driving-the-future-of-government-us-department-of-transportation-selects-google-workspace-as-new-agency-wide-collaboration-suite>; David DiMolfetta, “Transportation awards Google major contract after ‘OneGov’ deal,” Nextgov/FCW (Oct. 29, 2025), <https://www.nextgov.com/acquisition/2025/10/transportation-awards-google-major-contract-after-onegov-deal/409133/>.

Microsoft's Anticompetitive Playbook

Understanding Vendor Lock-In

Vendor lock-in refers to a situation where the actual or perceived costs of switching to a different vendor appear so high that an enterprise is essentially “locked” into continuing with the original vendor.²¹ Once locked in, the vendor faces no meaningful competition and is free to extract price premiums.

Lock-in affects enterprises of all kinds, but software presents particular challenges. Software is intangible, uniquely slippery and susceptible to legalistic chaos. Usage rights and licensing structures vary from product to product, even within the same brand. License agreements are almost always beyond the comprehension of anyone except the lawyers who wrote them.²² The consequence is a market where incumbency confers enormous advantage, authentic competitions in the public sector are rare and often only performative, and the largest vendors operate under minimal competitive pressure.

Vendor lock-in operates through several reinforcing mechanisms. Technical lock-in occurs when systems, data formats, and workflows become dependent on specific vendors. A database built on Oracle cannot easily migrate to alternatives. An organization standardized on Microsoft's Active Directory faces barriers to adopting alternative identity solutions.

Years of customizations and integrations become sunk costs (technical debt) that tilt every future decision toward the incumbent.

Contractual lock-in arises when software vendors use licensing terms to create switching barriers. For example, Oracle collects annual maintenance fees, typically 22 percent of the original purchase price, with contract language that can lock customers into payments even if they reduce usage, making partial migrations financially irrational.²³ In 2019, Microsoft changed its licensing agreements to make it up to five times more expensive to use Microsoft products in cloud environments other than Azure.²⁴ Customers who want to move their Windows Server licenses to AWS or Google must effectively repurchase what they already own.

Pricing structures can create similar traps. Microsoft's government enterprise agreements include volume-based discount tiers: the more licenses an organization purchases, the lower the unit price. This sounds like a benefit, but it can function as a lock-in mechanism. If an agency decides to move some users to a competing product like Google Workspace, the reduction in Microsoft licenses can push the remaining purchases into a higher-priced tier. Because these agreements typically require annual subscription renewals or reconciliations, the price increase hits when the organization reports its reduced license count, the cost of the Microsoft licenses that remain actually increases, making partial migrations self-defeating. While Microsoft recently announced it would standardize pricing across discount tiers for commercial customers beginning in November 2025, this change explicitly

²¹ Michael Garland, “Defeating Vendor Lock-In and Gaining Buying Power: Why the U.S. Government Must Consolidate Expertise to Fix its Broken Software Procurement System” (2024), available at www.garlandconsult.com
²² *Id.* at 9.

²³ *Id.* at 11; see also, Oracle, “Oracle Software Technical Support Policies” at 7 (Oct. 7, 2022), <https://www.oracle.com/contracts/docs/057419.pdf> (document regularly updated; cited language regarding support fee repricing upon license termination).

²⁴ Google Cloud, “Filing EU Complaint Against Microsoft Licensing,” Google Cloud Blog (Sept. 25, 2024), <https://cloud.google.com/blog/topics/inside-google-cloud/filing-eu-complaint-against-microsoft-licensing> (stating that “Microsoft's own statements indicate that customers who want to move their workloads to [AWS or Google Cloud] would need to pay up to five times more”); Competition and Markets Authority, “Cloud Services Market Investigation: Final Report” (July 31, 2025), https://assets.publishing.service.gov.uk/media/688b8891fdde2b8f73469544/final_decision_report.pdf (finding that Microsoft charges cloud competitors wholesale prices for Windows Server “dramatically higher—by orders of magnitude” than its own Azure pricing).

excludes U.S. Government price lists, leaving public agencies subject to the original tiered structure. Organizations find themselves unable to reduce their Microsoft footprint without triggering price increases that wipe out projected savings, unless they abandon the platform entirely, which is rarely feasible.²⁵

Cross-functional application consolidation and packaging, as in G5, creates yet another form of lock-in. When productivity software, security tools, compliance features, and telephony—all mostly unrelated tools—are sold as a single gigantic package, customers cannot easily compare individual components against standalone alternatives. The monolithic G5 bundle obscures pricing and creates dependencies that raise switching costs for any individual element. As venture capitalist David Sacks observed: Microsoft gets customers “hooked on the bundle,” uses the bundle to drive out competitors, and then raises the price.²⁶

To be clear, not all bundling is problematic. Logical bundles that group related functionality—a word processor with spell-check, a security suite combining complementary protective tools—can benefit customers through integration and convenience. The concern arises when vendors tie together unrelated products across functional categories specifically to foreclose competition, as with Microsoft’s G5 suite combining productivity software, security tools, telephony, litigation support, and business intelligence into a single all-or-nothing package. This looks more like illegal tying.²⁷

Information asymmetry compounds these dynamics. Microsoft’s standard customer agreement designates “the terms of this Agreement” as Confidential Information that neither party may disclose to third parties.²⁸ While public procurement records are generally subject to disclosure laws, this clause creates uncertainty that chills transparency. Risk-averse procurement officers, wary of violating confidentiality provisions or exposing their agencies to trade secret claims, often decline to share pricing data even with sister government agencies. In the author’s experience, public sector buyers have been reluctant to discuss even basic pricing information across agency lines, fearful of undefined confidentiality boundaries rather than explicitly prohibited from sharing. The result: each agency negotiates in isolation, unable to benchmark against what others pay, while Microsoft retains complete visibility into government-wide pricing. California has no idea what New York pays for Microsoft, but Microsoft knows exactly what both pay. Information asymmetry.

The consequences of lock-in are predictable: higher prices and reduced innovation. Consider the U.S. Department of Agriculture case. In 2021, the USDA sought to renew Microsoft products through a brand-name-only procurement. A disappointed bidder protested to GAO, arguing that Google Workspace would cost \$58 million over five years, \$112 million less than Microsoft’s \$170 million.²⁹ GAO upheld the protest, finding that USDA’s justification of “administrative inconvenience” was insufficient to exclude competition.³⁰ The protester pointed to successful large-scale migrations elsewhere, including Ascension Health, which activated more than 160,000 employees on Workspace during the pandemic.³¹ Ultimately, USDA purchased Microsoft anyway: vendor lock writ large.

The Department of Veterans Affairs provides an even starker example. In 2022, the VA awarded a \$1.6 billion Microsoft contract over three years.³² The limited source justification explained that if VA used

25 Microsoft, “Microsoft Online Services: Pricing Consistency Update” (Aug. 12, 2025), <https://www.microsoft.com/en-us/licensing/news/online-services-pricing-consistency-update> (announcing standardized pricing for commercial Enterprise Agreements but noting “U.S. Government and worldwide Education price lists are excluded”).

26 David Sacks, “The Microsoft Monopoly Playbook,” podcast interview (2024); David Sacks (@DavidSacks), X (formerly Twitter) (Oct. 5, 2022), <https://x.com/davidsacks/status/157792460125716481>. (“I say this with all due respect to Microsoft because it’s an amazing company that has high integrity, but the practice of bundling needs to be limited for antitrust reasons. It’s similar to dumping, which is anti-competitive.”)

27 This paper uses “tying” to describe economic practices that appear anticompetitive, not to assert a legal conclusion. Whether Microsoft’s conduct constitutes illegal tying under antitrust law is a question for courts; the European Commission has suggested it does.

28 Microsoft, “Microsoft Customer Agreement—Samples,” <https://www.microsoft.com/licensing/docs/view/Microsoft-Customer-Agreement---Samples> (U.S. example at 3 (Confidentiality), 5 (Limitations on Liability)).

29 Dave Nyczepir, “IT reseller challenges USDA’s ‘20-year tradition’ of sticking with Microsoft,” *FedScoop* (Dec. 23, 2021), <https://fedscoop.com/westwind-challenges-usdas-20-year-tradition-of-sticking-with-microsoft/>

30 GAO Decision B-420119, *Westwind Computer Products, Inc.* (Dec. 8, 2021), <https://www.gao.gov/products/b-420119>

31 Google, “Ascension Customer Success Story,” *Google Workspace*, <https://workspace.google.com/customers/ascension/> (describing migration of 160,000 healthcare employees to Google Workspace over a single weekend, shortly before the COVID-19 pandemic).

32 William M. Arkin, “Veterans’ Data at Risk After Cybersecurity Measure Removed, Officials Say,” *Newsweek* (Jan. 18, 2024), <https://www.newsweek.com/veterans-data-risk-after-cybersecurity-measure-removed-officials-say-1861620> (reporting VA’s March 2022 three-year, \$1.6 billion Microsoft contract covering 600,000 endpoints).

“any other model or provider,” it would “lose its current tenancy” and its “investment in existing Azure cloud infrastructure will be totally lost.”³³ The VA had perhaps unknowingly accepted license terms that created explicit lock-in. The pattern continued. In 2025, the VA awarded an even larger Microsoft contract, approximately \$4.7 billion over five years, or \$940 million annually.³⁴ This represented a \$407 million annual increase over the 2022 contract. Earlier, in 2024, the Government Accountability Office (GAO) had harshly criticized VA for having little awareness of its actual software usage, yet the agency continued spending exorbitantly with blindfolds on.³⁵ Microsoft was apparently the only product contemplated.

At published GSA pricing, a G5 license costs significantly more than G3, a premium that, across 250,000 employees, represents tens of millions annually.³⁶

Yes, the pricing gap between vendors is substantial. At published GSA pricing, Google Workspace costs almost \$400 per user per year less than comparable Microsoft products.³⁷ Across millions of government users, that differential represents potential savings in the hundreds of millions annually, if government were willing to compete. Microsoft’s pricing remains high because Microsoft has accurately determined it does not have to compete.

Lock-in diminishes innovation as well. When customers cannot credibly threaten to switch, vendors have diminished incentive to invest in product improvement. Why compete on features when you can compete on lock-in? For monopolists, the corporate focus switches to market protection and away from innovation. Meanwhile, innovative competitors face structural disadvantage. Even superior products at lower prices cannot win customers locked into incumbent platforms. This dynamic is particularly damaging in fast-moving technology markets, cloud computing, artificial intelligence, and cybersecurity, where government could benefit from best-of-breed solutions but vendor lock-in channels purchasing toward incumbents regardless of merit.

Government is particularly vulnerable to these forces. Software is the most complex commercial item to acquire and manage. Yet most government procurement officers are generalists with limited opportunity to develop deep expertise. They face vendors employing sales people chasing quotas whose sole job is structuring licensing to maximize vendor leverage and personal compensation. The asymmetry is structural. Government risk aversion makes matters worse. A failed product switch makes headlines; a successful renewal goes unnoticed. The personal incentives for procurement officers and IT managers favor the safe choice, which almost always means the incumbent. Money is left on the table; taxpayers bear the burden of these inefficiencies.

Vendor lock-in is difficult but not unsolvable. Governments are the largest buyers of IT products in the world. California alone spends approximately \$13 billion on IT annually.³⁸ Government has leverage, if it chooses to use it. The government’s software estate can be managed better. Vendor lock-in can be mitigated. Government can gain better pricing and innovation by focusing on competition, diversity, and interoperability.³⁹

33 Department of Veterans Affairs, Office of Procurement, Limited Sources Justification, Control No. VA-22-00007582, at 3, quoted in Michael Garland, “Vendor-Lock and Lack of Competition in the Government’s Software Estate” 6 (2023).

34 VA 2025 Microsoft Contract (\$4.7B): OrangeSlices AI, “Veterans Affairs inks 5-year \$4.7B Microsoft Enterprise Agreement” (2025), <https://orangeslices.ai/veterans-affairs-inks-a-5-year-4-7b-microsoft-enterprise-agreement/>; Contract details: Dell Federal Systems L.P. awarded 5-year Microsoft Enterprise Agreement, Contract No. 36C10B25F0093, Total Value: \$4,650,679,410.16, Period: April 1, 2025 – March 31, 2030

35 GAO software license report GAO-24-105717, “Federal Software Licenses: Agencies Need to Take Action to Achieve Additional Savings” (Jan. 29, 2024). <https://www.gao.gov/products/gao-24-105717>

36 See supra note 8.

37 GSA Advantage!, Product Catalog, <https://www.gsadvantage.gov> (prices as of June 19, 2025) (comparing Google Workspace Enterprise Plus, Item No. GWS-ENTPL-AC-I; Microsoft Office 365 E3 Government, Item No. DTT-00017-GOV; Microsoft 365 Copilot, Item No. CFQ7TTCOMM8R-2-PIY-M; Contract No. 47QSWA18D008F)

38 Eyrargon Egan, “In 2024, SLED IT Spending Takes a Whole-of-State Focus,” Government Technology (Feb. 8, 2024), <https://www.govtech.com/opinion/in-2024-sled-it-spending-takes-a-whole-of-state-focus>

39 Competition/diversity recommendation Garland, “Vendor-Lock and Lack of Competition in the Government’s Software Estate” (2023), p. 12.

The Listed Provider Scheme: How Microsoft Taxes Its Competitors' Customers

For years, enterprise software customers enjoyed a straightforward proposition: buy a license, and run that software wherever you choose. In cloud computing, this was known as “bring your own license” or BYOL: the ability to lift on-premise applications and shift them to any cloud provider without penalty. BYOL was central to the cloud’s value proposition of flexibility, efficiency, and cost savings. It guaranteed customers the benefit of the bargain they had already struck and fostered robust competition among cloud providers.

In October 2019, Microsoft ended that arrangement for its competitors’ customers. The company changed its standard license agreements on its market-dominant products, Windows Server, SQL Server, and Office 365, to make it significantly more expensive to use those products in cloud environments other than Microsoft’s own Azure.⁴⁰ Microsoft now explicitly forbids newer licensees from moving their already-purchased on-premise licenses to Amazon Web Services, Google Cloud, and Alibaba, some of Microsoft’s key competitors in the cloud space. To use those competitive cloud providers, Microsoft forces customers to repurchase new licenses for software they already acquired.

The mechanism is deceptively simple. Microsoft designates AWS, Google, and Alibaba as “Listed Providers” subject to special restrictions. Customers cannot bring existing Windows Server or Office 365 licenses to Listed Provider infrastructure without paying additional fees or purchasing new licenses entirely.⁴¹

Microsoft nominally includes Azure on the Listed Provider list, presumably to deflect antitrust scrutiny. But this inclusion is theater. Through the Azure Hybrid Benefit, Microsoft allows customers to exchange their existing on-premise licenses for Azure-compatible licenses at no or minimal additional cost.⁴² The practical effect: Listed Provider restrictions apply only to Microsoft’s competitors. Azure customers pay nothing extra; AWS and Google customers pay twice.

The price discrimination has garnered attention. The United Kingdom’s Competition and Markets Authority, in its comprehensive investigation of cloud services markets, found that Microsoft charges its cloud competitors wholesale prices for Windows Server that are dramatically higher, by orders of magnitude, than Microsoft’s own customer-facing prices for the same software on Azure.⁴³ The CMA concluded that “Microsoft’s licensing practices are adversely impacting the competitiveness of AWS and Google in the supply of cloud services.”⁴⁴

As Gartner analyst Raj Bala observed, “Microsoft is taking its arsenal of Windows Server, a massive software installed base, and using it punitively against its competitors.”⁴⁵ The result has been a large spike in Azure’s market share—growth that suggests something other than organic competition. The CMA found that Microsoft is winning more than twice as many new customers as AWS in each year from 2021 to 2023, and at least three times as many as Google.⁴⁶ The growth over this period is too close to the licensing change to be a coincidence. Customers are likely not choosing Azure because it offers superior technology or lower prices. They are likely choosing Azure because Microsoft has made the alternatives artificially expensive.

This is not a new playbook. In the 1990s, Microsoft leveraged its Windows desktop dominance to destroy Netscape by bundling (i.e. tying) Internet Explorer for “free.” The Department of Justice sued, and Microsoft settled.⁴⁷ Today, the same pattern repeats: dominance in one market (Windows holds approximately 72% of the desktop operating system market; Office commands roughly 85% of U.S. public sector productivity software) weaponized to foreclose competition in an adjacent market

40 Michael Garland, *Vendor Locking in the Cloud*, Nextgov/FCW (Apr. 14, 2022), <http://bit.ly/3j6rypV>.

41 Competition & Mkts. Auth., *Cloud Infrastructure Services: Final Decision Report 393–98* (July 31, 2025), https://assets.publishing.service.gov.uk/media/66aa3bce0c3bc1bb8699bb3c/CMA_Cloud_Market_Final_Decision_Report.pdf

42 *Id.* at 502–20.

43 *Id.* at 559.

44 *Id.* at 12, 99.

45 “How Satya Nadella Turned Microsoft Around,” *The Economist* (Oct. 22, 2020), <https://www.economist.com/briefing/2020/10/22/how-satya-nadella-turned-microsoft-around>

46 Competition & Mkts. Auth., *supra* note 41, at 12, 99.

47 DOJ Press Release (official source): U.S. Dep’t of Justice, *Justice Department Files Antitrust Suit Against Microsoft for Unlawfully Monopolizing Computer Software Markets* (May 18, 1998), https://www.justice.gov/atr/public/press_releases/1998/1764.htm

The Licensing Toll Booth

How Microsoft's Licensing Tiers Punish Customers Who Choose Competitors



The Question Many Are Asking:

Why do these rights differ at all? Windows Server runs identically on AWS, Google Cloud, and Azure. The software doesn't know or care which cloud hosts it. Before 2019, customers could bring their existing licenses to any cloud provider without penalty. These restrictions are a recent policy choice - not a technical necessity - apparently designed to make Microsoft's competitors artificially more expensive, steering customers toward Azure through licensing terms rather than merit.

CAPABILITY	AZURE	LISTED PROVIDER (AWS/Google)
Bring Your Own License (BYOL)	✓ Yes, with Hybrid Benefit	× Must repurchase licenses
Windows Server Licensing	✓ Included or discounted	× Up to 5x more expensive
SQL Server PaaS	✓ Full access	× Not available
Azure Virtual Desktop	✓ Included	× Not available
Technical difference in how software runs?	None	None

"Microsoft is taking its arsenal of Windows Server, a massive software installed base, and using it punitively against its competitors."

- Raj Bala, Gartner Analyst

Figure Microsoft Licensing Tier Restrictions. Adapted from Directions on Microsoft.

(cloud infrastructure).⁴⁸ The facts of the Netscape litigation track with uncomfortable precision to Microsoft's cloud aspirations.

These restrictions have real consequences for customers.

The Economist reported that a Fortune 500 healthcare company that had previously selected AWS as its cloud provider faced an additional annual licensing cost of \$100 million to continue using Microsoft products, forcing the firm to slow its cloud transition entirely.⁴⁹

Imagine how much pricing headroom this creates for Microsoft to overcharge for Azure, when it could cost \$100 million to leave. Government agencies face similar calculus: pay the Microsoft tax, or capitulate to Azure.

The warning signs were clear years ago. As I noted in 2022, "The time is now for the government to develop a strategy for license and cloud mobility to increase competition and promote innovation

⁴⁸ StatCounter, Desktop Operating System Market Share Worldwide, <https://gs.statcounter.com/os-market-share/desktop/worldwide> (last visited Jan. 30, 2026) (showing Windows at approximately 72% of the global desktop OS market); Omdia, Monoculture and Market Share: The State of Communications & Collaboration Software in the U.S. Government (Sept. 2021), <https://omdia.tech.informa.com/commissioned-research/articles/monoculture-and-market-share-the-state-of-communications-and-collaboration-software-in-the-us-government> (finding Microsoft holds approximately 85% of U.S. public sector productivity software market).

⁴⁹ See supra note 44.

before it discovers it's locked into antiquated technology with prohibitive or even insurmountable switching costs."⁵⁰ That warning went largely unheeded. California may now face precisely the predicament that was foretold, and the switching costs have only grown higher.

Oppressive Tying and Bundling as a Weapon: The Teams Case Study

Microsoft's recent tying and bundling strategy is perhaps nowhere more publicized than in its treatment of Teams, the collaboration platform that has become central to Microsoft 365. The pattern: bundle, capture, monetize, played out over less than a decade with precision.

When Microsoft launched Teams in 2017, it entered a market where Slack and Zoom had already established strong positions. Rather than compete on the merits, Microsoft chose a different path. It stuffed Teams into Office 365 subscriptions at no additional cost. Enterprise customers who were already paying for Office received Teams whether they wanted it or not.

Having captured the collaboration market through this version of tying, Microsoft began monetizing. In 2023, Microsoft launched Teams Premium, a new add-on license that strips features from the base product and charges extra to restore them. Users who decline to upgrade lose access to capabilities they had previously enjoyed as part of their existing licenses.⁵¹ The lock-in effects limit their ability to consider alternatives fairly, making the price increase profitable for Microsoft.

Regulators took notice. In 2020, Slack filed a complaint with the European Commission alleging that Microsoft illegally tied Teams to its Office productivity suite.⁵² In June 2024, the Commission issued a preliminary finding that Microsoft's practices appeared to constitute illegal tying.⁵³ In September 2025, Microsoft agreed to a settlement requiring it to unbundle Teams from Office 365 in the European Economic Area.⁵⁴

The settlement, however, offers less than meets the eye. Microsoft's "unbundling" applies only to new customers. Existing enterprise subscribers, likely greater than 90% of enterprise users, can continue to use, renew, and add licenses to their current bundled plans.⁵⁵ This is business as usual for Microsoft with only minor disruption. Moreover, Microsoft's new pricing structure is designed to make unbundling self-defeating. The standalone price for Teams is set low enough to undercut competitors, while the price differential between bundled and unbundled Office 365 effectively penalizes customers who choose competing collaboration tools.⁵⁶ As Forrester analysts observed, the new licensing structure gives only the "illusion of choice"; the biggest beneficiary is Microsoft itself.⁵⁷

The EU settlement does include one meaningful provision: interoperability requirements. Under the agreement, Microsoft must allow Teams' competitors and certain third parties (i) effective interoperability with certain Microsoft products and services for specific functionalities, (ii) the ability

50 Michael Garland, *Vendor Locking in the Cloud*, Nextgov/FCW (Apr. 14, 2022), <https://www.nextgov.com/ideas/2022/04/vendor-locking-cloud/365665/>.

51 Lindsay Clark, *Microsoft to Move Some Teams Features to 'Premium' Edition*, The Register (Jan. 11, 2023), https://www.theregister.com/2023/01/11/teams_premium_more_expensive/; Peter Deegan, *Teams Standard Gets Fewer Features in a Sneaky Microsoft Move*, Office Watch (Jan. 18, 2023), <https://office-watch.com/2023/teams-standard-fewer-features-microsoft/>.

52 Steve Lohr, *Slack Accuses Microsoft of Illegally Crushing Competition*, N.Y. Times (July 22, 2020), <https://www.nytimes.com/2020/07/22/technology/slack-microsoft-antitrust.html>.

53 Kelvin Chan, *European Union Accuses Microsoft of Breaching Antitrust Rules by Bundling Teams with Office Software*, Seattle Times (June 25, 2024), <https://www.seattletimes.com/business/european-union-accuses-microsoft-of-breaching-antitrust-rules-by-bundling-teams-with-office-software/>; see also Michael Tsai, *EU Charges Microsoft for Bundling Teams and Office* (June 26, 2024), <https://mjtsai.com/blog/2024/06/26/eu-charges-microsoft-for-bundling-teams-and-office/>.

54 Ryan Browne, *Microsoft Sidesteps Hefty EU Fine with Teams Unbundling Deal*, CNBC (Sept. 12, 2025), <https://www.cnbc.com/2025/09/12/microsoft-avoids-big-fine-as-eu-accepts-deal-to-unbundle-teams.html>.

55 Microsoft, *Important Notice: Changes to Microsoft 365, Office 365, and Microsoft Teams Licensing*, Microsoft Tech Cmty. (Apr. 1, 2024), <https://techcommunity.microsoft.com/blog/partnernews/important-notice-changes-to-microsoft-365-office-365-and-microsoft-teams-licensi/4100985>.

56 See, e.g., *Slack vs. Teams: Which Is Best?*, Zapier (May 20, 2025), <https://zapier.com/blog/slack-vs-microsoft-teams/> (noting Teams standalone costs \$4/month per user while Slack Pro costs \$8.75/month, but Microsoft 365 Business Basic at \$6/month includes Teams plus Exchange, Outlook, SharePoint, and OneDrive); *Video Conferencing Cost Comparison 2024*, Monetizely (Dec. 23, 2025), <https://www.getmonetizely.com/articles/video-conferencing-cost-comparison-2024-zoom-vs-google-meet-vs-microsoft-teams-which-offers-best-value-for-remote-teams> ("Teams Essentials at \$4/user undercuts competitors for pure video needs.").

57 Andrew Hewitt, *Microsoft Unbundling Teams from Microsoft 365 Is Just a Sneaky Price Hike*, Forrester (May 15, 2024), <https://www.forrester.com/logs/microsoft-unbundling-teams-from-microsoft-365-is-just-a-sneaky-price-hike>.

to embed Office Web Applications, Word, Excel, and PowerPoint, in their own products, (iii) prominent integration of their products in Microsoft's core productivity applications, and (iv) publication of interoperability and data portability information on all relevant developer-facing websites.⁵⁸ In practical terms, this could mean users of competing collaboration tools (Zoom, Google Meet, Webex) might one day be able to join Teams meetings seamlessly, without requiring a Teams account or suffering degraded functionality.⁵⁹

This addresses a subtle but powerful lock-in mechanism. When Teams users cannot easily include participants on other platforms, the network effect pressures entire organizations toward a single tool. A state agency using Zoom cannot easily collaborate with one using Teams. The friction pushes everyone toward the incumbent. For California, where dozens of agencies must coordinate across departmental boundaries, this interoperability gap can quietly foreclose alternatives even when individual agencies would prefer them. The EU recognized this dynamic. California should too. Why not require it? Microsoft is already doing it for Europe.

The Teams episode illustrates a recurring pattern. Microsoft uses hardball tactics to capture market share from potentially superior competitors, extracts monopoly rents once customers are locked in, and offers cosmetic unbundling remedies that preserve the competitive damage already inflicted. Slack, unable to compete against "free," was sold to Salesforce shortly after filing its European complaint.⁶⁰ By then it was too late. Meanwhile, as regulators worked through the Teams case, Microsoft applied the same bundling model to grow its G3 and G5 suites, confident that regulators lacked either the bandwidth or technical familiarity to open a new front while still fighting the last one. With the precedent established, Microsoft simply set its sights on its next bundling targets.

The Coming Lock-In: AI, Copilot, and the Question Few Are Asking

Microsoft's historical pattern (bundle, capture, monetize) takes on new dimensions with artificial intelligence. Copilot, Microsoft's AI assistant now being integrated across the Microsoft 365 suite, represents not just another tied product but a fundamentally different kind of lock-in: one built on organizational knowledge itself.

The traditional software paradigm offered a measure of portability. When an organization uses Word or Excel, the documents belong to the organization. Switch vendors, and you take your files with you. The switching cost is retraining and reformatting, painful but manageable. AI changes this calculus fundamentally. Copilot and similar AI tools don't just process documents. They learn from them. Over time, an AI assistant trained on an organization's emails, documents, meeting transcripts, and workflows develops customized capabilities. It learns the organization's terminology and acronyms. It recognizes patterns in how decisions are made. It builds models of workflows and approval chains. It develops predictive capabilities based on historical data. This isn't just data. It's derived intelligence. The question few are asking is: who owns it?

The portability problem is acute. If California spends five years with Copilot embedded in every department, what happens when the state wants to evaluate alternatives? Can California export the "trained" model that understands state government operations? Are the algorithms Copilot developed to serve California's unique needs portable to another platform? Or does that institutional knowledge remain locked in Microsoft's systems, effectively held hostage?

Federal procurement law addresses software ownership through established data rights clauses in the Federal Acquisition Regulation. Software developed with government funding is owned by the contractor, but the government retains unlimited rights to use it without additional charge. This

⁵⁸ Press Release, European Comm'n, Commission Accepts Commitments Offered by Microsoft to Address Competition Concerns Related to Teams (Sept. 12, 2025), https://ec.europa.eu/commission/presscorner/detail/en/ip_25_2048.

⁵⁹ Elisabeth Eklund et al., Microsoft's Commitments on Its Teams Platform Accepted by European Commission, Loyens & Loeff (Sept. 19, 2025), <https://www.loyensloeff.com/insights/news--events/news/microsofts-commitments-on-its-teams-platform-accepted-by-european-commission/>.

⁶⁰ Press Release, Salesforce, Salesforce Signs Definitive Agreement to Acquire Slack (Dec. 1, 2020), <https://www.salesforce.com/news/press-releases/2020/12/01/salesforce-definitive-agreement-update/>.

framework assumes software is a discrete deliverable, traditional code that can be copied and transferred. AI doesn't work that way. The "product" isn't code. It's a continuously evolving model shaped by the organization's own data. Current data rights frameworks have no mechanism to address ownership of models trained on government data, portability of fine-tuned AI capabilities, rights to derived insights and predictions, or vendor obligations to export learned capabilities.

If Microsoft's current licensing practices make switching cloud providers expensive, AI lock-in could make switching impossible. An organization that has spent years training Copilot on its operations faces a stark choice. Start over with a competitor's AI, losing years of accumulated organizational intelligence, or stay with Microsoft regardless of price increases, security concerns, or better alternatives. This is vendor lock-in elevated to a new order of magnitude: not just technical dependency, but cognitive dependency. Microsoft will price accordingly.

The pattern is already emerging. In June 2025, Salesforce changed its terms of service to block rival AI firms from accessing Slack data.⁶¹ Third-party AI platforms like Glean can no longer index, copy, or store Slack messages, even with customer permission. As Glean told its customers, the changes hamper "your ability to use your data with your chosen enterprise AI platform."⁶² Once your organizational knowledge flows into a vendor's AI ecosystem, extracting it for use elsewhere may become impossible, not just because of technical limitations, but because vendors will use terms of service to lock that intelligence inside their walls. What Salesforce is doing with Slack today, Microsoft can do with Copilot tomorrow.

California is being asked to renew a Microsoft contract just as Copilot integration accelerates across Microsoft 365. The licensing terms negotiated today will govern whether California retains meaningful control over its AI-derived institutional knowledge, or whether that knowledge becomes another lever for vendor lock-in. California should be asking these questions before renewal: What are California's data rights in AI models trained on state data? Can California export Copilot-derived capabilities to another platform? Are there contractual protections against AI-based lock-in? If these questions aren't addressed in the 2026 contract, California may find that the next renewal isn't a negotiation at all. Microsoft might be holding all the cards.

⁶¹ See Angela Christy, *Salesforce Blocks AI Rivals from Using Slack Data*, *The Information Reports*, Reuters (June 11, 2025), <https://finance.yahoo.com/news/salesforce-blocks-ai-rivals-using-014746612.html>; see also *Salesforce Blocks AI Rivals from Using Slack Data*, *The Info*. (June 11, 2025), <https://www.theinformation.com/articles/salesforce-blocks-ai-rivals-using-slack-data>.

⁶² *Id.* (quoting Glean customer email).

California's Opportunity for Reform

California is not powerless. As the nation's largest state government, California possesses substantial purchasing power, leverage that remains largely untapped. The state's Microsoft spending, nearly \$1 billion under the primary Crayon contract series alone, and approximately \$1.2 billion in total over five years, makes California one of Microsoft's most significant government customers.

That scale creates options.

A 2017 California State Auditor report documented repeated instances where agencies submitted noncompetitive contract requests just days before existing contracts expired, creating artificial urgency that foreclosed genuine competition.

A 2017 California State Auditor report documented \$44 billion in noncompetitive contracts across state agencies, a figure that reflects systemic reluctance to challenge incumbent vendors.⁶³ The report found that agencies routinely cited "administrative inconvenience" to justify sole-source renewals, even when competitive alternatives existed.⁶⁴ This pattern persists. California's procurement structure may create unhealthy incentives. Generally, procurement organizations are measured by transaction volume, not savings achieved. There is no institutional reward for the harder work of competitive procurement, and considerable risk if a transition stumbles. Most procurement officials are under time pressure to get transactions done rather than focused on strategic outcomes.

Yet the federal government's recent experience suggests a different path is possible. The federal Department of Transportation's migration to Google Workspace demonstrated that large-scale transitions can succeed. GSA's "OneGov" strategy, treating the federal government as a single buyer to negotiate enterprise-wide discounts, achieved pricing that individual agencies would be hard pressed to obtain alone.

California's opportunity extends beyond its own budget. The state's purchasing decisions send signals to the entire public sector market. If California demonstrates that categories can be parceled out from bloated application packages and awarded to best-of-breed competitors, and that vendor lock-in can be challenged and overcome, it establishes a reference point for every government buyer in America. Procurement officials in Texas, New York, and federal agencies will take notice. Vendors will take notice. California has an opportunity not just to save its own taxpayers money, but to strike a blow against anticompetitive practices that have constrained public sector technology markets for decades.

⁶³ Cal. State Auditor, Rep. 2016-124, *Noncompetitive Contracts: The Departments of General Services and Technology Should Improve the State's Oversight to Ensure Competitive Practices 1* (June 2017), <https://www.auditor.ca.gov/reports/2016-124/summary.html> (finding state agencies spent \$44 billion on noncompetitive contracts worth at least \$1 million between fiscal years 2011-12 and 2015-16).

⁶⁴ Reminiscent of the GAO holding that rejected administrative inconvenience as insufficient justification to exclude competition. See *supra* note 29.

A Framework for Reform

California's Microsoft enterprise agreement expires March 31, 2026. The path of least resistance is familiar. Renew the existing contract structure, attempt to negotiate a modest discount, and defer harder questions for another five years. This paper recommends a different approach.

The Bridge Contract: California's Immediate Priority

California should not sign a five-year renewal in March 2026. Instead, the state should negotiate a one-year bridge contract, an extension from April 2026 through March 2027 that preserves California's options while the state prepares for genuine competition.

A properly structured bridge agreement would include no long-term commitment beyond 12 months, pricing at or below current rates and required delivery of comprehensive utilization data by feature category. This is the information California needs to understand what it actually uses versus what it pays for. Critically, the agreement should ensure California can obtain and share pricing and usage data with potential competitors during the bridge period, enabling meaningful market comparisons.

A bridge year is not a delay—it is an investment in getting this right.

Large enterprises routinely spend 12–18 months preparing major technology transitions. California should hold itself to the same standard, particularly when the outcome could save tens of millions of dollars and establish a template for government procurement nationwide.

What the Bridge Year Enables

The bridge year gives California time to prepare what cannot be prepared by March 2026.

Start with utilization analysis. Which G5 features are actually used, by whom, and how often? Microsoft's testimony revealed 75% utilization of security tools, but what about Power BI, eDiscovery, Teams Phone? California cannot make informed decisions without this data. The bridge agreement should require Microsoft to deliver comprehensive utilization reporting as a condition of the extension.

Conduct a genuine needs assessment. Survey agencies to identify actual requirements versus bloat and waste. Does every employee need G5, or would G3 suffice for most workers? The answer almost certainly varies by department and job function, but California appears to have never asked this question.

Gather market intelligence. Issue RFIs to competitive vendors in key categories. What would CrowdStrike, Palo Alto Networks, or Zoom offer California? At what price? The state cannot know without asking. Even if California ultimately stays with Microsoft, understanding the competitive landscape strengthens the state's negotiating position.

Test alternatives through pilot programs. A successful pilot with volunteer agencies builds confidence and reduces the perceived risk that makes procurement officials default to incumbents. Resistance to change diminishes when decision-makers can point to working examples.

Finally, use the bridge year to build internal capacity, including procurement expertise and stakeholder support for competitive evaluation. These capabilities do not materialize overnight, but twelve months is enough time to make meaningful progress.

The Parceling Opportunity

Here is the key insight. California does not need Microsoft's permission to deconstruct G5. Microsoft will never voluntarily decompose its enormous bundle; the forced bundle is the strategy. But California can choose to parcel out categories to best-of-breed competitors on its own initiative.

As mentioned, the G5 mega-bundle spans multiple unrelated functional categories: productivity software, security, compliance, telephony, analytics. Nothing requires California to purchase all of these from a single vendor. California could license G3 for core productivity email, office apps, standard collaboration, for most employees while separately procuring endpoint security from CrowdStrike, SentinelOne, or Palo Alto Networks. Cloud telephony could come from Zoom Phone, RingCentral, or Cisco Webex. Business intelligence could come from Tableau, Qlik, or Looker. G5 could be maintained only for the specialists who genuinely need advanced compliance, eDiscovery, or other premium features.

This approach forces price transparency, a key element lacking in the current contract. When California solicits separate bids for security or telephony, Microsoft cannot hide premium pricing inside the omnibus G5 package. More importantly, it allows right-sizing with the state paying for premium features only where employees actually need them.

Parceling the G5: California’s Competitive Options

Categories California can parcel out to best-of-breed competitors

Microsoft 365 G5 Bundle	PARCEL OUT TO BEST OF BREED
Core Productivity Email, Office apps, Teams, storage	OPTIONS: Microsoft G3 Google Workspace
Advanced Security Endpoint, identity, threat protection <small>*Natural starting point</small>	OPTIONS: Microsoft Defender CrowdStrike (CA) Palo Alto (CA) SentinelOne (CA)
Compliance & Legal eDiscovery, audit, insider risk	OPTIONS: Microsoft Purview Relativity Exterro Veritas
Voice & Telephony Cloud PBX, audio conferencing	OPTIONS: Teams Phone Zoom Phone (CA) RingCentral Cisco Webex
Analytics & BI Dashboards, reporting, insights	OPTIONS: Power BI Tableau (CA) Qlik Looker

What Parceling Achieves

FOR CALIFORNIA

- Forces price transparency in each category
- Right-sizes licenses to actual worker needs
- Supports California-based technology companies
- Builds procurement muscle for future cycles

START WITH SECURITY

- Strong California-based competitors exist
- Clear evaluation criteria (detection, response)
- Minimal workflow disruption for employees
- Signals California is willing to compete

The Bridge Year Opportunity

California does not need Microsoft’s permission to parcel out these categories. During a one-year bridge contract, the state can evaluate alternatives, gather market intelligence, and prepare competitive solicitations – starting with security, where California-based vendors offer proven alternatives to Microsoft’s bundled tools.

G5 feature categories derived from Microsoft 365 Government Plan Comparison (2024). (CA) denotes California-headquartered companies.

Security is the natural starting point. Of all G5 categories, security is the easiest to parcel out. Strong competitors exist: CrowdStrike, SentinelOne, and Palo Alto Networks are proven enterprise security platforms, and two of the three are California companies. Security tools can be assessed on clear evaluation criteria like detection rates, response times, deployment complexity, and total cost of ownership. Unlike switching email or office apps, changing endpoint security does not require retraining every state employee. The disruption to daily workflows is minimal.

There is also a substantive case for competition in security. Microsoft patched over 1,200 vulnerabilities in 2025, including 41 actively exploited zero-days.⁶⁵ Organizations may reasonably conclude that security is too important to entrust to a vendor with this track record, especially when focused specialists offer alternatives. Moreover, G5’s bundled security tools do not cover protection for cloud infrastructure, a capability that requires additional consumption-based purchases that scale unpredictably with usage.

A competitive security procurement during the bridge year would accomplish multiple objectives: potentially better protection, likely cost savings, and a demonstration that California is willing to compete. That signal alone resets the negotiating dynamic with Microsoft across every G5 category.”

A Spectrum of Progress

Not every step requires the same level of effort. California should aim as high as its capacity and political will permit, but any movement represents progress over the status quo.

The bridge contract is the essential first step. Without it, California lacks the time to pursue any of the more ambitious options.

A Spectrum of Progress

Not every step requires the same level of effort. Any movement represents progress over the status quo.

APPROACH	COMPLEXITY	POTENTIAL IMPACT
Renew G5 as-is (5 years)	Minimal	None - status quo continues, lock-in deepens, waste
Bridge contract (1 year)	Low	Preserves options, enables preparation
Demand utilization data	Low	Improved negotiating position
Right-size G3/G5 mix	Moderate	Meaningful savings, no new vendors
Parcel out security	Moderate	Builds competitive muscle, market signal
Parcel out telephony	Moderate	Additional savings, proves model
Evaluate Google Workspace	High	Maximum leverage on Microsoft pricing

The bridge contract is the essential first step. Without it, California lacks the time to pursue any of the more ambitious options.

Options progress from lowest to highest complexity. California should aim as high as capacity and political will permit.

⁶⁵ See supra notes 18-19.

Copilot Caution

Microsoft is aggressively marketing Copilot AI capabilities, and California will face pressure to add Copilot licenses to any renewal. Caution is warranted.

Copilot might create the most harmful vendor lock-in yet.

Copilot requires G3 or G5. It deepens platform dependency rather than reducing it. Copilot pricing is additive. The list price is \$30 per user per month beyond existing Microsoft 365 licenses.⁶⁶ But current AI pricing bears little relationship to actual costs. No major enterprise AI contract has been publicly announced with a disclosed dollar value, leaving the true price of enterprise AI entirely opaque. The promotional pricing that exists today is almost certainly unsustainable.⁶⁷ Even at today's land-grab pricing, discounted Copilot licensing at scale represents a substantial new cost commitment. Predictably, when the land grab ends, prices will rise. Aside from price risk, the AI market is evolving rapidly, and a five-year Copilot commitment may foreclose better options that emerge during the term of the new contract. As discussed earlier in this paper, AI creates new forms of lock-in around organizational knowledge that current procurement frameworks do not address.

California's IT General Provisions for Cloud Computing include protections around generative AI and state data. These provisions should be carefully applied to any Copilot deployment. The prudent approach is to pilot Copilot on a limited basis during the bridge period, evaluate results, and preserve flexibility. California should not let AI enthusiasm accelerate a platform commitment.

Looking Ahead

Beyond the immediate renewal, California should consider structural reforms that address the root causes of vendor lock-in.

Software is the most complex commercial item government acquires, yet procurement is typically handled by generalists rotating through assignments. A specialized center of excellence for software procurement, staffed with experts who understand licensing structures, utilization analysis, and competitive market dynamics, could serve multiple agencies and build institutional knowledge that currently dissipates with each contract cycle.

Multi-state coordination offers another avenue for reform. If California, Texas, and New York negotiated jointly, their combined leverage would exceed any single vendor's ability to play states against each other. The federal "OneGov" model demonstrates what coordinated purchasing power can achieve.

These are longer-term investments. The immediate priority is the bridge contract.

The question is not whether California can achieve a perfect competitive procurement by March 2026. The question is whether California will take the first step to secure a bridge contract that preserves options and enables genuine competition. Any step forward is a step worth taking.

⁶⁶ See Microsoft 365 Copilot Plans and Pricing, Microsoft, <https://www.microsoft.com/en-us/microsoft-365-copilot/pricing/enterprise> (last visited Jan. 30, 2026) (listing \$30 per user per month for enterprise customers, in addition to qualifying Microsoft 365 license).

⁶⁷ See JPMorgan Chase, "AI Capex - Financing The Investment Cycle" (Nov. 2025) (finding that to achieve a 10% return on AI infrastructure investments through 2030 "would require ~\$650 billion of annual revenue into perpetuity"). The entire global software market generates approximately \$750 billion annually. Recovering AI investments would require new revenue approaching the entire worldwide software industry, an outcome that strains credulity. See "JPMorgan: Global data center and AI infra spend to hit \$5 trillion," Data Center Dynamics (Nov. 12, 2025), <https://www.datacenterdynamics.com/en/news/jpmorgan-global-data-center-and-ai-infra-spend-to-hit-5-trillion-demand-for-compute-remains-astronomical/>.

Conclusion

California stands at a crossroads. The state's primary Microsoft enterprise agreement expires in March 2026, having generated nearly \$1 billion in spending. This may be the last clear opportunity to reassert competitive discipline over software procurement before G5 and AI-driven lock-in makes switching practically impossible.

The problems documented in this paper are not unique to California. Every government buyer faces the same dynamics including bloated bundling and tying arrangements that obscure pricing, contractual terms that penalize switching, and procurement structures that favor incumbents over competition. What distinguishes California is scale. As the largest state government in America, California possesses leverage that smaller buyers lack. The question is whether California will use it.

This paper's recommendation is straightforward: California should not sign a five-year renewal in March 2026. A one-year bridge contract would preserve the state's options while California gathers the utilization data it lacks, conducts genuine market research, and prepares for competitive procurement. The bridge contract is not a delay. It is the necessary first step toward breaking free from vendor lock-in.

The path forward is incremental, not revolutionary. California need not abandon Microsoft products or execute a wholesale migration to alternatives. The goal is more modest. Stop buying more than the state needs, preserve optionality for future technology decisions, and parcel out categories to best-of-breed competitors where it makes sense, starting with security. Even partial progress changes the dynamic. A California willing to compete is a California that negotiates from strength.

California's choices will reverberate beyond its borders. The federal government and 49 other states watch what California does. A successful bridge contract, followed by even one competitive procurement, establishes a template for public sector buyers nationwide. It demonstrates that anticompetitive bundling practices can be challenged. It proves that vendor lock-in, however entrenched, is not insurmountable.

The stakes are measured in hundreds of millions of taxpayer dollars. The time to slow down is now.