



Decoding Microsoft Licensing: What You're Buying, How It's Bundled, and When to Upgrade



Microsoft Licensing Is Really Four Questions



Microsoft licensing looks complicated because it is actually four separate questions layered on top of each other: how you buy it, who is allowed to buy it that way, what you are actually getting for the money, and when it makes sense to change what you have. Most of the confusion around Microsoft licensing comes from trying to answer all four at once. Separate them, and the system gets a lot easier to work through.

Each section below tackles one of those four questions in order, so you can read straight through or jump to the one you need most. None of it assumes prior licensing knowledge. By the end, you should have real answers for your own Microsoft environment, not just a better sense of what to ask about.

How You Buy It, and Who Can

Every Microsoft purchase runs through one of four commercial vehicles, and which ones are actually open to your organization depends mostly on size and how you already buy from Microsoft today.

Vehicle	Who It's Built For	Term
Enterprise Agreement (EA)	Larger organizations, historically 500+ seats, in practice closer to 2,400+ today	Three years, with an annual true-up
MCA-E	EA-displaced organizations and larger cloud-first organizations buying direct from Microsoft	Evergreen, with a 1, 3, or 5-year subscription commitment
CSP	Organizations of any size, buying through a Microsoft partner	Monthly, annual, or three-year
MPSA	Transactional buyers, historically 250+ seats; availability narrowing	Single, non-expiring agreement

Enterprise Agreement (EA)

The [Enterprise Agreement](#) is Microsoft's original volume licensing structure for larger organizations: a three-year contract covering software, cloud services, or both, with an annual true-up that lets you add licenses as headcount grows. Microsoft's published minimum has been 500 users or devices since 2016, but the practical bar sits higher today. Organizations under roughly 2,400 seats are increasingly being told at renewal that a new or renewed EA is not available to them. The cutoff is tied to headcount, and a long history with the EA program does not exempt an organization from it.

Cloud Solution Provider (CSP)

[CSP](#) works well for organizations that want a more relational, partner-led buying experience and still expect meaningful discounts off list price. It carries no seat minimum, so it is available to an organization of any size, and it is purchased through an authorized Microsoft partner rather than directly from Microsoft. The partner owns billing, provisioning, and day-to-day support, and depending on the term selected, contracts run monthly, annually, or over three years.

Microsoft Customer Agreement for Enterprise (MCA-E)

[MCA-E](#) is where most organizations land once Microsoft declines an EA renewal, and it is also where larger, cloud-heavy organizations move by choice. It is a direct, evergreen agreement with Microsoft rather than a fixed three-year term. You commit to a subscription length, commonly one, three, or five years, and the agreement itself continues until either side ends it. Microsoft can update pricing and standard terms with notice, and Software Assurance, bundled by default under an EA, becomes something you add separately if you still want it.

Microsoft Products and Service Agreement (MPSA)

[MPSA](#) is a transactional agreement built for organizations that want to buy Microsoft software and cloud services as needed, without committing to volume across the whole organization. It has historically been available to organizations with 250 or more users, priced through a points system spread across three product pools: applications, systems, and servers. Microsoft has been steering new enterprise customers toward MCA-E and CSP instead in recent years, so if MPSA is part of your current setup or under consideration, it is worth confirming its current availability directly with Microsoft before building a plan around it.

Moving between these agreements is its own topic, and it involves more than a name change. The EA-to-MCA-E shift many organizations are navigating right now touches the pricing structure, the length and shape of the commitment, who manages the account day to day, and how Software Assurance gets handled. Some of what applied under an EA carries over; some of it does not, and knowing which is which before a renewal conversation starts is worth the time.



The mechanics of moving between these agreements, particularly the EA-to-MCA-E shift many organizations are navigating right now, are covered in full in [Microsoft Licensing Changes Explained: EA, MCA-E, CSP, and What They Mean](#).

What You’re Actually Buying: Products and Bundles



With the purchasing items covered, the next question is what you’re actually licensing. Five product families make up most Microsoft environments, and each one bundles and prices itself differently.

Microsoft 365

Microsoft 365 splits into three families. Business plans (Basic, Standard, and Premium), are capped at 300 users and priced for smaller organizations that do not need enterprise-scale security or compliance tooling. Enterprise plans, E1 through E5 and the new E7, have no seat cap and layer in progressively more capability: E1 covers core productivity and Teams; E3 adds desktop applications, information protection, and rights to run Windows Enterprise; E5 adds advanced security and threat protection, Power BI Pro, and Teams’ full calling features; E7, launched in May 2026, adds Microsoft 365 Copilot, the Entra Suite, and Agent 365 on top of everything in E5. Frontline plans, F1 and F3, are built for deskless and shift workers, with reduced mailbox and storage limits that reflect lighter, on-the-go use. [Microsoft’s enterprise plan comparison tool](#) let’s you check the exact current features and pricing side by side.

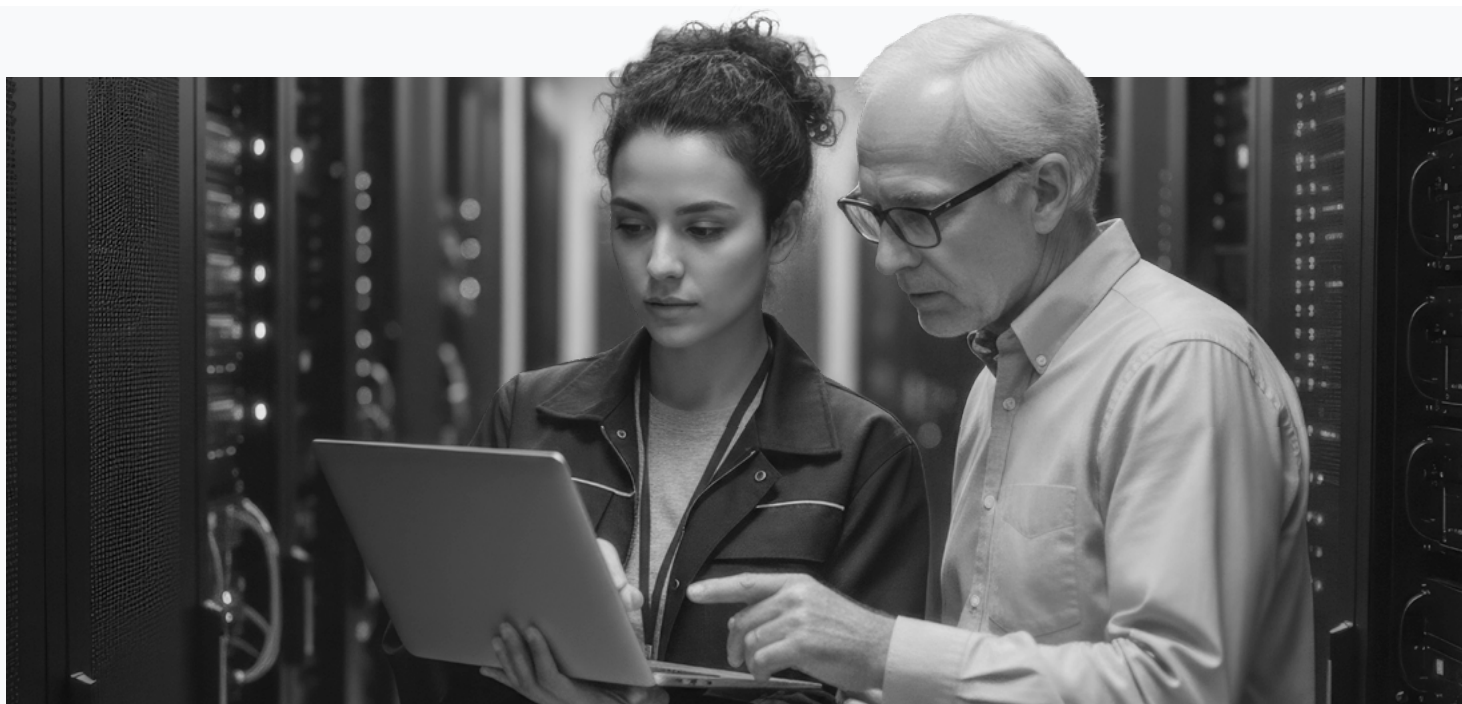
Family	Seat Cap	Suitable For
Business (Basic, Standard, Premium)	300	Smaller organizations needing core productivity, with Premium adding baseline security and device management
Enterprise (E1, E3, E5, E7)	None	Progressively deeper productivity, security, and analytics, plus AI agent governance as of E7
Frontline (F1, F3)	None (licensed per frontline worker)	Deskless and shift workers with lighter mailbox and app needs

Dynamics 365

[Dynamics 365](#) does not use a tiered ladder the way Microsoft 365 does. Instead, each user gets a Base license for the first application they need, such as Sales, Customer Service, or Finance, priced at full rate, and any additional Dynamics application for that same person attaches at a discounted rate. A separate, lower-cost Team Member license covers people who only need light, read-only access across multiple apps rather than full functionality in any one of them.

Power Platform

[Power Platform](#) is licensed three different ways, and picking the wrong one is one of the most common sources of overspend. A per-user license covers one person across every app they build or use. A per-app license covers one person's access to a single named app. Pay-as-you-go, billed through the organization's Azure subscription, charges only for the users who actually run an app in a given month, with no upfront commitment. Microsoft 365 plans include a restricted version of Power Apps that only works with Microsoft 365 data sources like SharePoint and Teams. The moment an app needs to connect to an outside system such as Salesforce or SAP, it needs a paid Power Apps license.



Azure

[Azure](#) runs on consumption pricing by default: you pay for compute, storage, and other resources by the hour or by the unit, based on what you actually use. Two tools add predictability on top of that. **Reservations** commit you to a specific resource for one or three years in exchange for a lower rate, often well below pay-as-you-go pricing. [Savings Plans](#), a more flexible alternative, commit you to a fixed hourly spend across a broader range of compute services rather than one specific resource, trading some of a reservation's discount depth for flexibility across your environment.

Windows Server

[Windows Server](#) licenses by physical core rather than by user or device. Every core on a server has to be licensed, with two minimums that apply regardless of the hardware: at least 8 cores per processor and 16 cores per server. That core license only covers the right to run the server software. Anyone or anything connecting to it, a person or a device, separately needs a Client Access License, sized to how many users or devices connect, not how large the server is.

How It's Priced: The Models Behind the Bundles



The vehicles and product families above rely on only a handful of underlying pricing models. Knowing which model applies to a given purchase tells you what actually drives the bill.

Per-user pricing is the default for Microsoft 365 and most Dynamics 365 applications. The person, not the device, is the billing unit, which makes it the natural fit anywhere a named individual needs ongoing access.

Per-device pricing charges for a machine instead of a person, which fits shared or task-based hardware: shift-work terminals, retail kiosks, and warehouse scanners, where multiple people rotate through the same device.

Per-core pricing scales with server capacity rather than headcount. It is how products like Windows Server and SQL Server are priced, and it means a small server with a handful of users and a large server with hundreds can carry very different costs even before any factors in access licenses.

CAL-based pricing, meaning Client Access Licensing, is the traditional on-premises model: license the server once for the right to run it, then license every connecting user or device separately. It shows up wherever core-based products like Windows Server are involved, since the core license and the CAL cover two different rights.

Consumption pricing charges for actual use rather than a fixed seat count. Azure runs this way by default, and Power Platform's pay-as-you-go option and Dynamics 365 Marketing's contact-based pricing follow the same logic: the bill moves with usage, up or down, rather than staying fixed to a headcount set months in advance.

Model	Where It Shows Up	What Drives the Bill
Per-user pricing	Microsoft 365, most Dynamics 365 apps	Number of people with access
Per-device pricing	Shared or task-based hardware	Number of machines in use
Per-core pricing	Windows Server, SQL Server	Physical processor capacity
CAL-based pricing	On-premises server products	Server license plus a license per connecting user or device
Consumption pricing	Azure, Power Platform pay-as-you-go, Dynamics 365 Marketing	Actual usage in a given period

When It's Time to Move Up a Tier

Upgrade decisions come up constantly in Microsoft environments, and the signals worth watching are different at each step of the ladder.

From E3 to E5

Most organizations move from E3 to E5 when their security and compliance needs outgrow E3's baseline: deeper threat protection, stronger data loss prevention, or the kind of eDiscovery and insider risk management that comes up during litigation, a regulatory review, or a growing compliance program. Teams Phone, which brings calling directly into Teams, and Power BI Pro, for more advanced reporting, are the two features that most often tip the decision on their own. For the full worked comparison, including where the E5 premium does and does not pay for itself, see [Do We Actually Need M365 E5?](#)

From E5 to E7

Microsoft 365 E7 reached general availability on May 1, 2026, priced at \$99 per user per month. It is the first new enterprise tier Microsoft has added to the Microsoft 365 lineup since E5 launched in 2015, and it works by bundling three components on top of everything already included in E5: Microsoft 365 Copilot, the Entra Suite, and Agent 365, a new governance layer built specifically to track and control AI agents operating inside an organization.

Agent 365 is the real reason E7 exists. As organizations deploy more AI agents, whether built with Copilot Studio, embedded in Microsoft 365 apps, or built elsewhere, IT needs a way to see which agents exist, what each one can access, and how to shut one down if it misbehaves. Agent 365 registers and governs those agent identities, sitting alongside the identity and security tools the Entra Suite already provides for human users.

The economics are closer than the headline price suggests. E5 rose to \$60 per user per month as of July 1, 2026, and a standalone Copilot license runs about \$30, putting that combination at roughly \$90 already. E7's \$99 adds the Entra Suite and Agent 365 on top for about \$9 more than many organizations are effectively paying today, and Microsoft's CSP promotional pricing through the end of 2026 brings the list price down further.

Independent analysts have been measured about how quickly to move. Gartner's initial assessment, published in March 2026, [called Agent 365 promising but still a work in progress](#), pointing to unfinished features and limited automation, and recommended evaluating the functionality now while deferring an actual purchase until it matures. [A Gartner survey conducted around the same time found only 4% of IT and AI leaders were highly likely to upgrade to E7 within the year, with another 16% somewhat likely](#), meaning roughly four out of five organizations were in no hurry. Put together, the signal is consistent: E7 is worth serious evaluation if you are already running E5 alongside a standalone Copilot license and actively deploying AI agents at a scale that needs central governance rather than ad hoc oversight. If E5 already covers your real day-to-day needs and your AI agent use is still exploratory, there is no cost to waiting. Adopt E7 on its governance merits and your own AI roadmap, not because it just launched.

However You Approach It, DCG Is Glad to Walk Through It

Moving up a tier gets most of the attention, but the reverse matters just as much. If a large share of your E5 seats never touch Power BI Pro, never use Teams Phone, and never trigger the advanced compliance tools that justified the upgrade in the first place, that is a license management finding worth acting on.

DCG works exclusively with Microsoft licensing and the wider Microsoft ecosystem, and we are glad to walk through any part of what is covered here: comparing EA against CSP for the first time, working out whether E7 is worth it yet, or getting a second opinion ahead of a renewal. And if you would rather see how, take the [License Optimization Assessment](#) to map it out directly.

Glossary of Microsoft Licensing Terms

Quick definitions for the terms used throughout this guide, in case you want to jump straight to one.

Term	What It Means
Agent 365	Microsoft's registry and control layer for AI agent identities, bundled into Microsoft 365 E7.
Attach license (Dynamics 365)	A discounted license for a second or later Dynamics 365 application assigned to a user who already holds a Base license.
Azure	Microsoft's cloud computing platform, billed primarily on consumption rather than a fixed seat count.
Base license (Dynamics 365)	The first, full-price Dynamics 365 application license assigned to a user. Every full user needs one.
CAL (Client Access License)	A license that grants one user or device the right to connect to a licensed server, purchased separately from the server license itself.
Consumption pricing	A billing model that charges for actual resource use rather than a fixed number of seats.
Copilot Studio	Microsoft's tool for building custom AI agents, distinct from the Microsoft 365 Copilot assistant itself.
Core-based licensing	A model, used for Windows Server and similar products, that prices a license by the number of physical processor cores on a server.
CSP (Cloud Solution Provider)	A Microsoft purchasing vehicle with no seat minimum, bought through an authorized partner rather than directly from Microsoft.
EA (Enterprise Agreement)	Microsoft's traditional three-year volume licensing agreement, historically built for larger organizations.
eDiscovery	Tools for identifying, preserving, and reviewing electronic information relevant to litigation or a regulatory investigation
Entra Suite	Microsoft's bundled identity and access security offering, one of the three components added on top of E5 in E7.
Frontline plans (F1, F3)	Microsoft 365 plans built for deskless or shift workers, with lighter mailbox and storage limits than the Enterprise plans.
MCA-E (Microsoft Customer Agreement for Enterprise)	An evergreen, direct-with-Microsoft agreement that has become the primary successor to the EA at renewal.
MPSA (Microsoft Products and Services Agreement)	A transactional licensing agreement with no organization-wide volume commitment, historically available to organizations with 250 or more users.

Microsoft 365 Copilot	Microsoft's AI assistant embedded across Microsoft 365 apps, available as a standalone add-on or bundled into E7.
Per-app pricing	A Power Platform license that covers one user's access to a single named application.
Per-core pricing	A pricing model that scales with server processing capacity rather than headcount.
Per-device pricing	A pricing model billed per machine rather than per person.
Per-user pricing	A pricing model billed per named individual, regardless of how many devices that person uses.
Power BI Pro	Microsoft's advanced business analytics and reporting tool, included in Microsoft 365 E5 and E7.
Reservations (Azure)	A discount available in exchange for committing to a specific Azure resource for one or three years.
Savings Plans (Azure)	A more flexible Azure discount based on a committed hourly spend across a range of compute services, rather than one specific resource.
Software Assurance (SA)	A Microsoft benefit, bundled by default under an EA and optional elsewhere, that includes upgrade rights and other ongoing entitlements.
Team Member license (Dynamics 365)	A lower-cost license for light, read-only access across multiple Dynamics 365 applications.
Teams Phone	Microsoft's cloud calling capability built into Microsoft Teams, included starting at Microsoft 365 E5.
True-up	The annual process, used under an EA, of reporting and paying for licenses added since the last count.



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