

Microsoft's business software ecosystem: Element's response

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We welcome the opportunity to share our perspective and respond to the CMA's invitation to comment on Microsoft's business software ecosystem. Element is an encrypted messaging startup founded in the UK and with branches in Germany and France, which employs over 80 people, and develops solutions based on an open standard for secure communications called Matrix.

We develop a secure and interoperable communication platform for customers ranging from governments (many of whom are European like the European Commission, the German Bundeswehr, German ZenDiS, the French government, the Swedish government, but also the UN, the US Navy and Marine Corps, NATO...), to large enterprises and individual consumers. Element leads to the development and maintenance of [Matrix](#), an open source initiative to develop and maintain an open standard for decentralised real time communications.

This response reflects our perspective as an organisation developing and maintaining open source software, particularly decentralised communication systems and privacy-preserving digital infrastructure. Additionally, Element's products compete with, and are frequently deployed as alternatives or supplements to, Microsoft Teams.

Element responds to this Invitation to Comment as a challenger competitor in the productivity software market and as a vendor for an open standard that delivers interoperability across collaboration software providers.

Executive summary

Element supports the CMA's decision to investigate Microsoft's business software ecosystem under the Digital Markets, Competition and Consumers Act 2024 ("the Act"). In Element's experience as a challenger to Microsoft Teams, Microsoft's market position as a productivity software suite vendor is reinforced by the bundling of Teams within Microsoft 365, by integration with adjacent products in the ecosystem (notably Microsoft Azure hosting, Microsoft 365 calendaring, and identity), and by the practical impossibility for challenger vendors to integrate with that ecosystem on commercially viable terms.

Element makes five core observations:

- Element does not attempt to compete with Teams on price; it differentiates on digital sovereignty, interoperability and end-to-end encryption. Microsoft's bundling of Teams in Microsoft 365 makes Element a structurally more expensive proposition for any customer also licensing Microsoft 365.
- Element has observed no material change in market conditions following the European Commission's decisions in Microsoft Teams (Case AT.40721) and Microsoft Teams II (Case AT.40873), notwithstanding Microsoft's voluntary global application of those commitments. The set price differential and the unbundled-suite obligation have not, in Element's experience, produced observable competitive effects in the UK or EEA challenger segment.
- Element supports a grouped designation of Microsoft's business software ecosystem. The ecosystem interlinkages, in particular between productivity software, identity and security, and server operating systems, are central to how Microsoft's market power translates into challenges for collaboration-software competitors.
- We support the CMA's four candidate priority issues (preventing leverage into adjacent activities, technical design and interoperability, commercial bundling, and defaults / design steering). Additionally, Element urges the CMA to consider how UK public-sector procurement of free and open-source software ("FOSS") is affected by "freeriding" conduct of IT services firms, which materially reduces the commercial returns to challenger upstream vendors such as Element and degrades the quality of open-source alternatives in the market.
- Element's suggested interventions are non-prescriptive but prioritise: (a) enforceable interoperability obligations on open-standard terms; (b) meaningful, audited price differentials between bundled and unbundled productivity suites; (c) prohibition of self-preferencing in default settings and account-bound functionality; and (d) supplementary UK public-sector procurement guidance on the sustainable purchase of open-source software.

The remainder of this response addresses the six questions in the Invitation to Comment in turn.

Question 1: scope of the investigation and candidate descriptions of Microsoft's business software ecosystem

Element supports the scope of the investigation and the candidate descriptions of the digital activities set out at paragraph 15 of the Invitation to Comment. Element supports the proposed grouping of these activities into a single digital activity for the purposes of the SMS assessment, pursuant to section 3(3) of the Act. Element's direct commercial experience corroborates the CMA's observation that customers, in particular public-sector customers, acquire and operate these products as an integrated software environment. The interlinkages are commercial (multi-product subscriptions, particularly Microsoft 365), technical (identity and access management binding productivity, security and server products through Entra ID and Active Directory) and behavioural (default settings, in-product prompts and pre-enabled functionality).

Further, Element supports the inclusion of Copilot features and AI-assistant functionality within the scope of the Productivity Software Suite, as set out at paragraph 15(a). The introduction of AI features into existing bundles is a particular concern. Where Microsoft adds Copilot functionality to applications that are themselves bundled with Microsoft 365, the effect is to transfer entrenched market power into an emerging AI-functionality layer without a contestable competitive process.

Element's experiences relevant to scope

Element's customers, particularly government bodies, use Element's products both as an alternative or complement to replacement for, and in supplement to, Microsoft Teams. Microsoft's customer base for Teams in the UK alone exceeds 20 million users (as the Invitation to Comment also notes for the wider Productivity Software Suite). The scale of that installed base means challenger vendors cannot realistically compete on the same terms as Microsoft, irrespective of product quality or technical differentiation.

Question 2: avenues of investigation and other issues

Element offers the following evidence and observations against the avenues of investigation set out at paragraphs 24 and 25 of the Invitation to Comment.

In Element's experience, there is no effective competitive constraint on Microsoft from challenger productivity software providers, when measured by the practical commercial outcome for the customer:

- Enterprise competitors (Microsoft Teams, Slack, Skype for Business) operate on similar commercial models and similar levels of vendor lock-in. Element competes by differentiating on sovereignty, self-hosted deployment and end-to-end encryption, which are features that Microsoft Teams and Slack do not offer.
- Consumer-grade messaging applications (WhatsApp, Signal, Telegram) are free of charge to the end user and lack the management controls necessary for workplace use. They constitute neither an effective workplace alternative to Teams nor an effective competitor to Element in the enterprise segment, although Element does also position itself as a workplace alternative to consumer messaging apps used in “shadow IT” scenarios.
- Open-source vendors and challengers with similar positioning to Element (Mattermost, Rocket.Chat, Threema, Wire) are independently identified in the Forrester Wave on Secure Communications. They constitute the closest substitutes to Element but, in aggregate, do not exert sufficient competitive pressure to constrain Microsoft Teams’ market position.
- Free FOSS distributions of Element’s own software, redistributed by IT services firms without commercial contribution to the upstream project, exert downward pressure on Element’s own revenue (see Element’s comments on freeriding below) but, again, do not constrain Microsoft.

Element’s direct experience is that integration with Microsoft’s productivity software is commercially prohibitive. Element has demonstrated proven interoperability with alternative productivity platforms (for example, Nextcloud, the open-source equivalent of Microsoft OneDrive) but cannot achieve equivalent integration with Microsoft’s ecosystem on commercially or technically viable terms..

Element therefore differentiates by addressing customers whose digital sovereignty, security or regulatory needs make a US-vendor-controlled cloud offering unsuitable, most prominently in the European public sector.

The principal switching barrier reported by Element’s prospective customers is not the technical effort of migrating collaboration data, but the unavoidable economics of bundling: Microsoft 365 customers receive Teams at little to no incremental cost, and any alternative is therefore an incremental line-item against an effectively-free incumbent. This is the bundling dynamic the CMA identifies at paragraphs 49 to 51 of the Invitation to Comment, and Element confirms it as material in its target market.

Two notable jurisdictional exceptions reinforce the point: the French government is developing LaSuite as a sovereign alternative to Microsoft 365, and the German government, through ZenDiS (the Centre for Digital Sovereignty), is procuring openDesk as an equivalent alternative. Element’s products are integrated into both – via the Tchapp messaging service in France and a customised Element deployment in Germany. These are signal cases of customers prepared to absorb material switching costs because of sovereignty concerns, and they illustrate both the demand for genuine alternatives and the

scale of the commercial barrier facing challenger vendors who cannot match Microsoft's bundled pricing.

Two forward-looking considerations are particularly relevant:

- Microsoft could emerge as a stronger competitor to Element in the self-hosted segment, which Element currently serves through ESS Pro. Microsoft's legacy on-premises product, Skype for Business, has been periodically described as "end of life" but remains available on service contracts to strategic customers. A pivot by Microsoft to a true self-hosted Teams product would constitute a significant competitive challenge for Element and similar challengers. The Cloud Act 2018 (Pub. L. 115-141, 18 U.S.C. § 2713) and equivalent obligations on US-headquartered providers may, however, constrain Microsoft's ability to credibly offer a sovereign self-hosted product to European and other non-US public-sector customers.
- The integration of AI features into Microsoft's existing bundles raises the prospect that Microsoft will translate its existing entrenched position into an emerging AI-functionality market without a competitive process. This concern aligns with the CMA's position at paragraphs 17, 40 and 50.

Additional issue: freeriding on FOSS upstream vendors

Element invites the CMA to consider an additional structural issue affecting challenger competition in business software: the practice of "freeriding" on free and open-source software, without commercial contribution to the upstream project. Element is one of vendors for the Matrix open standard, which is being [adopted by an increasing number of UK and European public-sector organisations](#).

In Element's direct experience, IT services firms with incumbent positions in government procurements bid to deliver Matrix-based solutions while themselves having little or no Matrix expertise. The IT services firm typically delivers a substandard solution built on a thinly-customised version of FOSS community software, while not contributing to the upstream project. The commercial outcome is to starve the upstream vendor of revenue, to deliver a substandard solution to the public-sector customer, and to damage the reputation of the open-source alternative in the market. The behaviour is structurally facilitated by procurement practices that do not distinguish between upstream-backed and freeriding suppliers.

The Open Source Business Alliance (OSBA) Selection Criteria for the Sustainable Procurement of Open-Source Software (February 2025) provides a model framework. See [OSBA Position Paper on Sustainable Procurement](#). Element urges the CMA to consider whether comparable UK public-sector procurement guidance would mitigate the structural disadvantage faced by FOSS challenger upstream vendors competing against Microsoft's ecosystem.

Question 3: how business software may evolve, including AI and cloud adoption

Element's observations on future evolution are structured around three dynamics: AI integration, the sovereignty/cloud-vs-on-premises question, and the parallel growth of public-sector sovereign cloud initiatives.

Element is currently developing internal ethical and legal guidelines for the use of AI in its own products, and has not introduced commercial AI features yet. Element's position is to establish principles before deploying functionality. The CMA's observation that Microsoft is positioned to integrate AI across multiple layers of its ecosystem (paragraphs 4, 17 and 40 of the Invitation to Comment) describes a competitive dynamic that Element cannot replicate at present, irrespective of product strategy: the AI integration advantage flows from the ecosystem position, not from independent AI capability.

Element therefore agrees with the CMA's focus on whether AI features embedded into existing bundles raise the risk of entrenchment.

US-headquartered providers, including Microsoft, increasingly market their European data-centre footprint as offering "sovereignty" to European customers. In Element's view, this characterisation is misleading. Data-centre location does not address the substantive sovereignty question, which is whether the service can be unilaterally suspended by the vendor (or by US-government order) under US legal obligations. Two recent illustrations are publicly documented:

- Microsoft suspended services to International Criminal Court personnel following US sanctions on the ICC prosecutor in 2025, demonstrating that US providers will comply with US sanctions even where this disrupts services to non-US institutions.
- Maxar Technologies suspended Ukrainian government access to satellite imagery at the request of the US government, again demonstrating that service continuity from a US vendor is conditional on US foreign policy.

These cases substantively limit the credibility of "sovereign cloud" claims made by US-headquartered providers. The forward-looking competitive question is therefore the extent to which a genuinely sovereign on-premises or EU-controlled alternative will continue to attract demand from European public-sector customers. [Element's view](#) is that this demand is growing.

Sovereign-cloud public-sector initiatives

The French government's [LaSuite](#) programme and the German government's ZenDiS-led [openDesk](#) programme are two material examples of European public-sector procurement of sovereign alternatives to Microsoft 365. The European Commission has separately trialled open-source communications software, including Element's products. Element works with more than half of European Union member-state governments and with NATO directly. The

forward-looking trajectory in Element's target market is decoupled from Microsoft's ecosystem trajectory in important respects, but is not large enough to dislodge Microsoft's structural position.

Question 4: whether the CMA's candidate issues are the right ones

Element supports each of the four candidate issues set out at paragraph 41 of the Invitation to Comment as priorities for further CMA investigation.

In addition to the four candidate issues, Element invites the CMA to consider whether the structural disadvantage faced by FOSS upstream vendors in UK public-sector procurement, as described in response to Question 2, is itself a competition issue suitable for intervention or for cross-referral to the Government Digital Service or to Crown Commercial Service. Without procurement-level recognition of the difference between an upstream-backed challenger and a freeriding services intermediary, public-sector buyers cannot reliably support the open-source ecosystem on which the most credible long-term alternatives to Microsoft's ecosystem are built.

Question 5: potential interventions that are necessary, effective and proportionate

Element approaches Question 5 by reference to the three-step framework set out at paragraph 32 of the Invitation to Comment (aim, effectiveness, proportionality). Element does not seek to be prescriptive about the legal form (Conduct Requirement, Pro-Competition Intervention or voluntary commitment) but emphasises that any intervention must be enforceable in the UK, not contingent on voluntary global application of remedies adopted elsewhere.

Element's experience with the European Commission's Teams remedy (see Question 6 below) is that a price-differential commitment, in the absence of enforceable transparency and audit obligations, has not produced observable competitive effects. Element therefore proposes the following intervention design:

- A requirement that Microsoft offer Microsoft 365 (or any equivalent successor productivity suite) without Teams (or any equivalent successor collaboration product) at a meaningful, audited price differential that reflects the standalone economic cost of the bundled collaboration product.
- A requirement that the unbundled offering is available on equivalent commercial terms (including discounting, term length, channel and renewal terms) to the bundled offering, to remove indirect channels through which the bundled offering remains the de facto default.

- A requirement for transparent reporting of bundled-versus-unbundled customer counts and pricing, on an audited basis, to enable competitive monitoring of the remedy's effectiveness.

Interventions on interoperability (issue 41(b))

Element supports interoperability obligations modelled on open-standard principles, on the following lines:

- A requirement to provide third-party collaboration software with access to Microsoft 365 calendaring, identity and presence functions on fair, reasonable and non-discriminatory (FRAND) terms, including technical and commercial terms equivalent to those Microsoft provides to its own first-party products.
- A requirement to support open-standard federation protocols for collaboration software, recognising that Microsoft Teams is presently siloed to Teams-to-Teams federation, contrary to the open-standard approach that underpins email and that the Matrix protocol provides for collaboration. Element notes that any such requirement should be capable of accommodating legitimate security and privacy considerations.
- A requirement that documented APIs, protocols and data formats used to interconnect Microsoft's products with Microsoft's own first-party services are made available to third parties on equivalent terms, to prevent asymmetric API access.

Public-sector procurement intervention

Element urges the CMA to engage with the Cabinet Office and Crown Commercial Service to develop UK public-sector procurement guidance for open-source software, modelled on the OSBA framework referenced at Question 2 above. The intervention is supplementary to the conduct-side interventions above, and its purpose is to ensure that genuine open-source alternatives are not commercially displaced by freeriding intermediaries in the very procurements where they should be most viable.

Question 6: lessons from measures imposed in other jurisdictions

Element offers the following observations on the international precedents cited at paragraph 59 of the Invitation to Comment:

The European Commission accepted legally-binding commitments from Microsoft in May 2025 concerning the unbundling of Teams from Office 365 and Microsoft 365, an audited price differential between bundled and unbundled suites, interoperability obligations toward competing collaboration tools, and data-portability obligations to facilitate switching. Microsoft has voluntarily applied the commitments globally, although the commitments are not legally enforceable in the UK.

Element's direct experience since the commitments came into effect is that it has not observed any material change in market conditions for challenger collaboration software in either the UK or the EEA. The bundled-versus-unbundled price differential, in Element's observation, has not translated into observable switching behaviour, and Microsoft has continued to leverage adjacent productivity software (calendar, identity, document collaboration) in ways that maintain the practical advantage of the integrated Microsoft suite.

The implication for the CMA is that an unbundling-plus-price-differential remedy, even when binding, is not sufficient on its own. Effective remedies must also include enforceable interoperability obligations on adjacent products in the ecosystem (notably Microsoft 365 calendar and Microsoft Entra ID identity), transparent reporting on commercial uptake, and credible audit and enforcement mechanisms with UK enforceability.

European Union: Digital Markets Act

Microsoft is designated as a gatekeeper under the Digital Markets Act (Regulation (EU) 2022/1925) for Windows OS pursuant to the European Commission's designation decision of 5 September 2023 (DMA.100026). The corresponding obligations – on default settings, user choice, interoperability and limitations on self-preferencing under Articles 5 and 6 of the DMA – are relevant precedents for the CMA's consideration of Conduct Requirements under the Act. Element notes that the DMA designation is limited to the operating system; the CMA's investigation, which encompasses the wider ecosystem, has a meaningfully broader scope.

Germany: Bundeskartellamt section 19a designation

The Bundeskartellamt's designation of Microsoft as having paramount significance for competition across markets, under section 19a of the German Competition Act (Decision B6-26/23, 27 September 2024), is the closest international precedent for a grouped, ecosystem-level assessment. The Bundeskartellamt's findings on the interconnections within Microsoft's ecosystem, reinforced by cloud and AI integration, parallel the issues the CMA is now investigating. Element supports the CMA's approach, set out at paragraphs 19 to 22, of considering whether to assess the activities as a grouped digital activity, which is consistent with both the Bundeskartellamt's ecosystem-wide approach and the practical reality of how UK customers acquire and operate Microsoft's products.

Conclusions

- Remedies must be enforceable in the UK and must not rely on the voluntary global application by Microsoft of commitments adopted elsewhere. Element's direct experience with the European Commission's 2025 Teams remedy demonstrates that such voluntary application does not, on its own, produce observable competitive effects.

- A bundling-and-price-differential remedy is necessary but not sufficient. Effective remedies must additionally address interoperability with adjacent products in the ecosystem (calendar, identity, document collaboration) and the default-settings dynamic.
- The Bundeskartellamt's ecosystem-wide approach is the most relevant international precedent for a UK SMS designation, given the structural interconnections among Microsoft's products and the way customers acquire them.
- Where remedies depend on transparency reporting or audited price differentials, the audit framework must be specified in the remedy itself, with credible UK-enforceable penalties for non-compliance.