STRATEGIC MARKET STATUS INVESTIGATION INTO MICROSOFT BUSINESS SOFTWARE

MICROSOFT RESPONSE TO THE CMA'S INVITATION TO COMMENT

Microsoft

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Microsoft response to the Invitation to Comment

1 Introduction

1.1 Microsoft welcomes the opportunity to respond to the Competition and Markets Authority's ("**CMA**") Invitation to Comment ("**ITC**") in connection with its Strategic Market Status ("**SMS**") investigation into Microsoft's business software. Microsoft is committed to engaging constructively and transparently with the CMA throughout this investigation. Microsoft shares the CMA's objective of ensuring that UK businesses and public sector organisations have access to the best products at competitive prices. Microsoft believes the evidence gathered in this investigation will demonstrate that Microsoft operates in a vigorously competitive environment and that its products deliver substantial benefits to UK customers, and through them, the wider UK economy.

1.2 Microsoft has always believed that open technology creates more opportunity: for developers, for businesses, and for society as a whole. Business software enables UK organisations, from small businesses to the NHS and FTSE 100 companies to communicate, collaborate, manage data and serve their customers. Working with its 34,000 UK partners, Microsoft's products and platform contribute more than £38 billion in revenue to the UK economy,[1] a multiplier effect that is only possible because Microsoft's platform is open: partners and competitors alike can build on, extend and integrate with Microsoft's products using openly available tools and resources.

1.3 Getting the framework right matters enormously, and Microsoft is committed to working with the CMA in a participative manner throughout this process. This submission makes four broad points: the CMA is investigating at least five distinct products, all of which face intense competition; Microsoft's commitment to openness and interoperability is real, deep and growing; AI is making competition more intense, not less; and Microsoft's commercial model offers genuine customer choice. A separate section addresses the conclusions of the Cloud Market Investigation in relation to software licensing, which Microsoft strongly disagreed with at the time, and which have since become even more out of date.

2 Five distinct digital activities, all facing intense competition

2.1 The CMA is investigating five distinct digital activities: a productivity software suite, a PC operating system, a server operating system, a relational database management system, and security and identity software. Microsoft does not accept that these five activities are appropriately characterised as a single grouped digital activity or, indeed, that they represent any kind of unitary or proprietary "ecosystem". Each serves distinct purposes, is supplied to different customer segments and is subject to different competitive constraints. Many organisations use different providers across these categories, and the degree of integration varies considerably.

2.2 The CMA should gather and test robust evidence on how customers procure and use these products. Microsoft anticipates that such evidence will show considerable heterogeneity in customer behaviour which militates against a single grouped designation (or any designation at all).

[1] Microsoft, *The UK Impact Report: How we are building a responsible future* (Microsoft, 2024), available at: https://ukstories.microsoft.com/wp-content/uploads/2024/07/UK-Impact-Report-FINAL.pdf.

2.3 Microsoft faces substantial competitive constraints across all five digital activities.

2.3.1 In **productivity software**, Google Workspace competes vigorously with Microsoft 365 and has secured significant enterprise and public sector adoption globally. Additional competing productivity suites include iWork, Zoho Workplace, Quip, OnlyOffice, WPS Office, LibreOffice, Apache OpenOffice, and Canva. Specialist providers, including Slack (now part of Salesforce), Zoom, Box, and Dropbox, compete effectively in communications, collaboration and file management, and have expanded their offerings over time to provide more comprehensive productivity solutions. Competing AI tools operate at significant scale, and many customers use multiple different AI assistants for productivity scenarios.

2.3.2 In **operating systems**, macOS is a strong competitor, particularly in professional and creative sectors, as are ChromeOS and Linux.

2.3.3 In **server operating systems**, Linux is the most widely used server operating system and its share continues to grow, both for deployments on premises and in the cloud, running more than two-thirds of customer cores in Azure today and over 90% of public cloud workloads.[2] Specific competing server operating systems include Red Hat Enterprise Linux, SUSE Linux Enterprise, Ubuntu Server, Amazon Linux, and FreeBSD.

2.3.4 In **database management**, open-source databases including PostgreSQL, MySQL, proprietary commercial databases such as Oracle and IBM Db2, together with cloud-native offerings from AWS, Google Cloud, and others, all compete vigorously with SQL Server. Depending on customer requirements, SQL Server may also be substituted by non-relational database management systems, including document-oriented databases such as MongoDB, column-oriented databases such as Vertica, and embedded databases such as SQLite.

2.3.5 In **security and identity**, Identity Access Management providers such as Okta, Ping Identity, Transmit Security and IBM remain strong competitors. One of the main workloads that users sign into with Okta is Microsoft 365, illustrating how freely enterprises can and do combine Microsoft applications with third-party identity solutions. Microsoft also faces significant competition in security solutions, including from CrowdStrike, SentinelOne, Palo Alto Networks, and Wiz (acquired by Google).

2.4 Microsoft innovates across all these areas in response to competition. In the last year alone, Microsoft released more than 1,100 new features across Microsoft 365, Security, Copilot and SharePoint including AI-powered security agents, new endpoint management capabilities and SQL Server 2025, now generally available, which introduces native vector database functionality. This pace of innovation is the direct product of competitive pressure from well-resourced rivals investing at the same scale and speed. The CMA should approach these markets as they are: dynamic, fast-moving markets in which Microsoft must earn its customers' business at every renewal.

[2] Microsoft Azure, '*Microsoft's Open Source Journey: From 20,000 Lines of Linux Code to AI at Global Scale*' (Microsoft Azure Blog), available at: https://azure.microsoft.com/en-us/blog/microsofts-open-source-journey-from-20000-lines-of-linux-code-to-ai-at-global-scale/; Linux Foundation, https://training.linuxfoundation.org/blog/90-of-the-public-cloud-runs-on-linux/.

3 Microsoft's commitment to openness and interoperability is real, deep and growing

3.1 Microsoft's products are built on industry-standard, publicly documented protocols and APIs. The core protocols used by Microsoft are publicly available and use established interoperability standards, and Microsoft exposes extensibility points that balance security and interoperability. This commitment is foundational to Microsoft's business model, not incidental to it. Openness is commercially rational: customers choose Microsoft's products because they interoperate with the rest of their technology estate, and a closed platform would undermine that proposition.

3.2 The depth of this commitment is demonstrated in practice by the availability of thousands of third-party add-ins for Microsoft's apps and services through the Microsoft Marketplace.[3] These solutions allow customers to integrate competing solutions directly into their Microsoft environment. Considering AI apps and agents alone, customers can integrate solutions from providers including Google, Anthropic, Salesforce and a wide range of specialist providers, using the same extensibility points and APIs that Microsoft itself uses.

3.3 Microsoft’s open systems have allowed not only global but also UK businesses to thrive, to the benefit of customers. For example, Darktrace, the Cambridge-founded AI cybersecurity company, builds AI-native security that complements and integrates with Microsoft software, blocking 25% more threats than either solution alone.[4] Darktrace competes directly with Microsoft's own security products. Kainos, the Belfast-headquartered technology firm, has built a substantial government and NHS digital transformation business on Microsoft's open platform.[5]

3.4 In the age of AI, this commitment is only deepening. Microsoft is delivering support for the Model Context Protocol (MCP), an open, vendor-neutral standard developed by Anthropic, across GitHub, Copilot Studio, Azure AI Foundry and Windows 11, enabling any AI agent to connect to data sources and tools through a shared standard.[6] Microsoft also supports the Agent-to-Agent (A2A) protocol originally developed by Google, enabling agents to collaborate across clouds and platforms. Meanwhile, Microsoft's own open-source AI agent frameworks, Semantic Kernel and AutoGen, are available to any developer, including those building direct competitors to Microsoft's products. These investments flow directly back into the open-source ecosystem.

4 AI is making competition more intense, not less

4.1 AI is dramatically lowering the barriers to building high-performing enterprise software. The transition to cloud already reduced the infrastructure barriers by enabling challengers to scale quickly, iterate rapidly and reach customers at lower cost. AI is now doing the same for the application layer. Start-ups with small teams can today build and deploy sophisticated AI-powered tools that compete directly with established products at scale.

4.2 Competition in technology markets has always operated through product improvement and innovation: companies add features, enhance capabilities and broaden the value of their products in order to attract and retain customers. This is the mechanism by which markets deliver value. Every major technology business including Google, Amazon, Salesforce and

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[3] Microsoft, Marketplace, available at: https://marketplace.microsoft.com/en-us/.

[4] Microsoft, '*Congratulations to the Microsoft UK Partner of the Year Award winners and finalists 2024*' (2024), available at: https://www.darktrace.com/blog/microsoft-partner-of-the-year-2024.

[5] Kainos, '*Microsoft*' (Kainos.com), available at: https://www.kainos.com/digital-services/expertise/microsoft.

[6] Microsoft, *'Microsoft Build 2025: The age of AI agents and building the open agentic web'* (Official Microsoft Blog, 19 May 2025), available at: https://blogs.microsoft.com/blog/2025/05/19/microsoft-build-2025-the-age-of-ai-agents-and-building-the-open-agentic-web/.

others, now integrates AI functionality into the software and services it already offers to customers, because remaining competitive requires the inclusion of new capabilities within products that customers already use. AI functionality is offered with all modern software across the industry. As explained above, Microsoft both offers its own AI technology within its solutions and provides the ability for others to do so.

4.3 The CMA's forward-looking assessment must account for the accelerating pace of competition driven by AI. Gemini (Google) has grown from zero to over 900 million monthly active users in two years,[7] whilst ChatGPT reached 900 million weekly active users in 2026,[8] and both are widely used in both consumer and business settings. Anthropic's Claude is making considerable progress primarily as a business-focused solution. The emergence of powerful, widely adopted AI assistants from well-resourced competitors is fundamentally inconsistent with the proposition that Microsoft could have "entrenched" market power in the relevant activities.

4.4 The CMA's five-year forward-looking assessment must reflect this reality: assumptions about competitive dynamics that were reasonable before the AI era cannot be carried forward into an assessment of a market being transformed at extraordinary speed.

5 Microsoft's commercial model offers genuine customer choice

5.1 The use of integrated software suites is widespread across the technology industry and is a well-recognised, efficient response to the heterogeneous nature of customer demand. Different customers want different things, and Microsoft offers them. Some customers want a single integrated suite that covers their productivity, collaboration, identity and security needs without complexity. For resource-constrained organisations, particularly smaller businesses and public sector bodies, the convenience and cost efficiency of a single trusted provider is a real and rational preference. Other customers may wish to mix and match Microsoft 365 alongside other products, such as Okta for identity, Dropbox for files, Slack for messaging and CrowdStrike for endpoint security. Microsoft supports both models. That is the point of building an open platform.

5.2 Microsoft offers a range of suite options at different price points, enabling customers to make meaningful choices. Copilot deployment is an admin-controlled and optional paid add-on. Customers who prefer not to deploy Teams need not do so: Exchange Online, SharePoint Online and the core Office applications are available separately. For those who prefer point solutions, Microsoft enables integrations and interoperability across the board. Microsoft 365 and Google Workspace are both used by 48% of Okta's customers alongside a hybrid blend of applications including Slack, Zoom, Box and Salesforce.[9] Darktrace, Okta, CrowdStrike, Snowflake, Databricks and Cursor are all substantial and growing businesses that compete directly with Microsoft products whilst serving customers who also use Microsoft 365.

5.3 The existence and health of successful specialist providers across every one of these markets is the clearest evidence that customers exercise real choice. Okta's identity platform is used by tens of thousands of organisations, including many that also run Microsoft 365.[10] CrowdStrike

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[7] Alphabet Inc, 'I/O 2026: Welcome to the agentic Gemini era' (19 May 2026) (remarks of Sundar Pichai, CEO), available at: https://blog.google/intl/en-nz/company-news/sundar-pichai-io-2026/.

[8] Aisha Malik, *'ChatGPT reaches 900M weekly active users*' (*TechCrunch*, 27 February 2026), available at: https://techcrunch.com/2026/02/27/chatgpt-reaches-900m-weekly-active-users/.

[9] Okta, Inc, *Businesses at Work 2026* (available at: https://www.okta.com/resources/whitepapers/businesses-at-work/?vz_proxy_type=base&vz_admin=1&vz_mbox_disable=1&vz_url=https%3A%2F%2Fwww.okta.com%2Fresources%2Fwhitepapers%2Fbusinesses-at-work%2F).

[10] Okta, Inc, *Annual Report on Form 10-K for the fiscal year ended January 31, 2025* (filed with the US Securities and Exchange Commission, 31 January 2025), available at: https://www.sec.gov/Archives/edgar/data/1660134/000166013425000049/okta-20250131.htm.

has built a multi-billion-dollar business in endpoint security.[11] Slack, now part of Salesforce, grew to tens of millions of daily active users competing directly with Teams and continues to do so. Snowflake and Databricks have each built substantial businesses on top of and alongside Microsoft's data platform. These are not marginal players – they are well-resourced, rapidly growing companies that compete vigorously with Microsoft every day. This competitive landscape is inconsistent with any firm holding substantial, let alone entrenched, market power and is vastly different from the competitive landscapes that exist for the SMS designations of mobile platforms and general search and search advertising services.

6 Cloud Licensing: Cloud Market Investigation findings do not reflect reality

6.1 Microsoft has consistently disagreed with the conclusions reached in relation to software licensing in the Cloud Market Investigation. Those conclusions did not reflect the competitive dynamics of the cloud market at the time, and are less defensible by the day as the cloud market continues to evolve at a pace the Market Investigation did not anticipate.

6.2 The market data tell the story clearly. Global cloud infrastructure service revenue reached $129 billion in Q1 2026, up 35% year-over-year, growth rates not seen since 2022 when the market was less than half its current size.[12] Google Cloud posted 63% revenue growth year-on-year in Q1 2026, with an annual run rate of $80 billion.[13] Google Cloud now represents 18% of Alphabet's total business, up from 11.8% just two years ago.[14] Google Cloud's current customer backlog stands at $460 billion.[15] Google Cloud has become Alphabet's fastest-growing business, powered by very significant bets on AI and years of investment in data centres, custom chips and networking. Similarly, AWS, the largest cloud provider globally, grew revenue by 28% in Q1 2026, with an annual run rate of more than $150 billion.[16]

6.3 This is the competitive reality that the CMA's SMS investigation must confront and one that the Market Investigation failed even to consider. A cloud market characterised by high growth across hyperscalers, and a wide range of specialist providers including CoreWeave, Snowflake and Databricks carving out significant positions, is not a market in which Microsoft's licensing practices are materially distorting competition or have the potential to do so. Licensing fees for Microsoft software represent a very small fraction of the revenues and profits earned by AWS and Google Cloud. Enterprise customers are moving fluidly across clouds: the most common configurations involve Microsoft alongside, not instead of, AWS and Google.

6.4 Microsoft therefore continues to disagree that its licensing practices harm competition or that a regulated solution can engineer an approach to licensing that results in better outcomes for UK customers than the market has already produced. Microsoft's pricing structure is designed to reflect varying use rights, which is common practice across sectors. It is standard practice and

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[11] CrowdStrike Holdings, Inc, *Annual Report on Form 10-K for the fiscal year ended January 31,* 2026 (filed with the US Securities and Exchange Commission, 5 March 2026), available at: https://www.sec.gov/ix?doc=/Archives/edgar/data/0001535527/000153552726000010/crwd-20260131.htm.

[12] Synergy Research Group, 'Cloud Market Annual Revenue Run Rate Topped Half a Trillion Dollars in Q1 as Growth Surge Continue', Available at: https://www.srgresearch.com/articles/cloud-market-annual-revenue-run-rate-topped-half-a-trillion-dollars-in-q1-as-growth-surge-continues.

[13] Alphabet Inc, '*Alphabet Announces First Quarter 2026 Results*' (filed with the US Securities and Exchange Commission 29 April 2026), available at: https://www.sec.gov/Archives/edgar/data/1652044/000165204426000043/googexhibit991q12026.htm.

[14] Alexei Oreskovic, '*Cloud revenue is now 18% of Alphabet's business. Is Google's identity as a search company changing?*' (*Fortune*, 29 April 2026), available at: https://fortune.com/2026/04/29/google-earnings-cloud-ai/.

[15] Alphabet Inc, '*Alphabet Announces First Quarter 2026 Results*', see fn 13.

[16] *Amazon*.com, 'Amazon.Com Announces First Quarter Result' (filed with the US Securities and Exchange Commission, 29 April 2026), available at: https://s2.q4cdn.com/299287126/files/doc_earnings/2026/q1/earnings-result/AMZN-Q1-2026-Earnings-Release.pdf.

indeed efficient to set prices that correspond to the breadth of rights granted, enabling customers to select and pay for only the rights that meet their particular needs. Fees for Microsoft software do not prevent AWS and Google Cloud from competing across workloads; the notion that because of Microsoft's licensing practices, AWS and Google Cloud cannot compete effectively on price with Microsoft for UK customers or are deterred from investing in cloud infrastructure does not correspond with market reality.

6.5 Moreover, the CMA would be making a serious and procedurally unsound error if it were simply to proceed on the basis of the conclusions of the Market Investigation. The market has changed drastically since information gathering in that process concluded in 2024, and the conclusions reached at that time were themselves significantly influenced by Ofcom's Market Study that began in 2022 — before ChatGPT had even been released. Microsoft looks forward to engaging with the Digital Markets Unit on the facts as they stand today and on the five-year forward-looking basis that the SMS regime requires. On both timeframes, robust evidence will demonstrate that the cloud market is vigorously and increasingly competitive, and that Microsoft's licensing of legacy software is incapable of impacting competition in it.

7 Conclusion

7.1 Evidence gathered in this investigation will demonstrate that Microsoft faces vigorous competition across all of the apps and services identified in the ITC; that its commitment to openness and interoperability is deep and extensive; that AI is bringing substantial new competition to all relevant markets and that integration of AI functionality into existing products is an industry-wide imperative; and that its commercial arrangements offer customers genuine choice. Microsoft does not believe that an SMS designation is warranted on the evidence. Nonetheless, Microsoft welcomes the opportunity to engage constructively with the CMA throughout the investigation.