

Strategic Market Status Investigation into Microsoft’s Business Software Ecosystem: Open Cloud Coalition’s response to the Competition and Markets Authority Invitation to Comment

Summary

The OCC is a coalition of 27 members drawn from across the cloud and enterprise technology market, including challenger cloud providers and firms with direct experience of how Microsoft’s licensing, interoperability and bundling practices affect competition and customer choice in practice.

The Open Cloud Coalition (OCC) welcomes the CMA’s decision to open an SMS investigation into Microsoft’s business software ecosystem under the Digital Markets, Competition and Consumers Act 2024, but it also recognises that there have been two previous investigations into these issues since 2022. During this period the detriment from Microsoft’s practices has continued to increase in line with its increase in market share as identified in the CMA’s final decision report last year. It is therefore imperative that the CMA now works at pace not only to designate Microsoft with SMS, but to put in place remedies in the form of conduct requirements (CRs) that have already been identified as being necessary to address these harms.

While the OCC also supports the proposed scope of the investigation, it believes that the CMA should be more ambitious with its proposed timeframes, both for designation and for implementing CRs. One of the explicit aims of the DMU framework when introduced was to allow the CMA to move at pace to address harms. Unfortunately, this has not been the experience in relation to cloud computing where, if anything, the new regime has delayed implementation of some remedies that would have otherwise been put in place a year ago following the market investigation.

The CMA should therefore, first, aim to designate Microsoft with SMS well within the 9-month statutory timeframe, and consult on CRs in parallel with the SMS investigation, so that the appropriate measures can be put in place with minimal further delay upon designation.

To reassure on this, the CMA, at the same time as publishing its initial decision for consultation, should also publish a “roadmap” setting out the CRs that it is considering as a priority. The OCC understands that this was the approach that the CMA took in its first two designation investigations: the CMA should take the same approach in this investigation and set out a clear programme for putting in place CRs to address Microsoft’s anti-competitive licensing practices without further delay.

While the OCC understands that SMS designation is a necessary step before the CMA can impose CRs on Microsoft, there should be no doubt that the evidence strongly supports designation. Microsoft occupies a uniquely important and entrenched position across core layers of business software used by UK organisations, including productivity software, desktop and server operating systems, relational database software, and identity, security and device management tools. The CMA’s own market investigation indicates the scale of Microsoft’s UK footprint and the extent to which these products are used together as part of a single software environment for organisations.

In the OCC’s view, competition concerns do not arise simply from Microsoft’s scale, but from the way that its ecosystem position can be used to shape outcomes in adjacent and emerging markets. Most importantly, Microsoft’s licensing practices can impose substantial cost penalties, degraded commercial terms, or reduced flexibility on customers that choose to run Microsoft software on rival cloud infrastructure. These restrictions significantly reduce contestability in the cloud market, leveraging dominance in one market (business software) to

foreclose competition in another (cloud infrastructure). The CMA has already identified this concern in the Cloud Market Investigation, and the present SMS investigation provides the appropriate route to address it.

The OCC also considers that this investigation must be forward-looking. Microsoft's existing ecosystem advantages are increasingly being extended into enterprise AI through Copilot and related AI assistant and agent functionalities. If the CMA's assessment and any resulting interventions do not adequately account for this, current distortions in cloud and software markets risk being carried into the next generation of enterprise workflows.

The OCC's view is therefore that the CMA should:

- designate Microsoft with SMS and pursue enforceable remedies, not rely on voluntary commitments;
- move at pace and avoid delay, including by developing conduct requirements in parallel with the investigation;
- maintain the full breadth of the proposed scope, including the extension of current ecosystem dynamics into enterprise AI;
- Prioritising securing genuine pricing parity and functional equivalence for Microsoft software across cloud providers;
- judge success by real-world outcomes for customers and rivals, rather than formal compliance alone;
- build robust anti-circumvention protections into any intervention; and
- ensure that current cloud and software distortions are not carried forward into enterprise AI.

Part 1: Scope of the investigation and SMS assessment

1. Views on the proposed scope and candidate descriptions of Microsoft's business software ecosystem

The OCC supports the CMA's proposed scope and candidate descriptions.

The CMA's approach rightly reflects commercial and technical reality. Microsoft's productivity suite, PC operating system, server operating system, relational database software, and security and identity software do not operate as isolated products. They function as an integrated business software environment, and the CMA is right to investigate whether they should be treated as a grouped digital activity within a single business software ecosystem.

This grouped approach is essential. A narrower or fragmented approach would risk missing the central competitive dynamic: Microsoft's ability to reinforce its position through interlocking technical, commercial and contractual relationships across the stack. The competitive significance of the ecosystem lies precisely in the interaction between these layers. The OCC therefore urges the CMA to maintain the breadth of the proposed scope.

The OCC also strongly supports the CMA's intention to investigate the extent to which Microsoft's AI products, including Copilot-branded products and related assistant functionalities, should fall within scope. The ITC and investigation notice correctly recognise that Microsoft's AI offerings span multiple layers of the technology stack and may need to be assessed across the digital activities under investigation.

In the OCC's view, it would be a serious error to exclude enterprise AI from the ecosystem assessment at the outset. AI is not separate from Microsoft's business software ecosystem. It is increasingly embedded within it. Copilot and emerging agent-based functionalities are being introduced through the same productivity, identity, data and workflow layers that already anchor Microsoft's enterprise position. The inclusion of AI is therefore critical to ensure that CMA interventions against software lock-in remain robust and future proof.

2. Evidence relevant to the CMA's avenues of investigation

The OCC supports the CMA's proposed avenues of investigation and considers that the most immediate and consequential issue is the leveraging of Microsoft's position in business software into cloud infrastructure and, increasingly, enterprise AI.

Leveraging business software into cloud

There is substantial evidence that Microsoft's licensing model can make it materially more expensive, less flexible or less attractive for customers to run Microsoft software on rival cloud infrastructure. The result is that customer choice between cloud providers is no longer determined purely by technical merit, price or service quality, but by software licensing rules that favour Azure.

One OCC SME member found that while their offering was 17% cheaper than Azure for non-SQL workloads, it became 15% more expensive for SQL workloads due to Microsoft's licensing terms. This demonstrates how such practices can distort competition and limit customer choice. Bundling practices and restrictions on software use further exacerbate this issue, reducing flexibility and forcing customers into less competitive options.

This issue is already reflected in the CMA's own work. The ITC explicitly states that, if Microsoft is designated, this could enable the CMA to consider interventions ensuring that UK customers can freely choose which cloud to deploy Microsoft business software on. It also notes that the Cloud Market Investigation identified potential obligations around fair, reasonable and non-discriminatory pricing, restrictions on unequal access to software functionality depending on the cloud used, and changes to licensing practices affecting deployment and transfer.

The OCC believes that this should be a central focus of the investigation.

Supporting survey and market evidence

Recent research also points in the same direction:

- OCC-sponsored [Censuswide research](#) indicates that over 70% of cloud providers view regulatory intervention into Microsoft's licensing practices as urgent, while almost 65% of customers say swift action to improve cloud competition and reduce lock-in is very important. 68% of buyers expect regulatory delay to result in higher costs and nearly two-thirds expect it to reduce flexibility.
- Further OCC-sponsored [research by JL Partners](#) across six EU member states found that over 60% of both cloud users and providers believe Microsoft's licensing practices tilt the market in favour of Azure. 69% of providers reported that these same restrictions are now also distorting competition in AI.
- A February 2024 [Savanta survey](#) for CCIA found that 40% of IT decision-makers who had considered switching cloud providers said existing licensing terms prevented them from transferring on-premises licences to another vendor, while a further 40% cited fear of losing discounts as a switching barrier. Importantly, 42% said discounts linked to existing software licences were a key factor in their original choice of cloud provider.
- The Social Market Foundation [estimated in 2024](#) that Microsoft's unfair licensing practices cost the UK public sector around £60 million per year, or over £300 million over the course of a Parliament, based only on a subset of the relevant software products. Given the foundational nature of cloud services as an input to virtually all sectors of the UK economy, the true economic impact is likely to be materially higher.

This evidence shows the decisive impact of Microsoft’s software licensing practices on customer choice in the downstream cloud market, underscoring both Microsoft’s entrenched market power and the strategic necessity of addressing its anti-competitive licensing practices via the SMS framework

3. Future evolution of business software (AI and cloud adoption)

The OCC agrees with the CMA that the investigation must be forward-looking and take account of the way business software is evolving through cloud adoption, AI integration and agentic workflows.

The key future risk is not simply that Microsoft continues to enjoy a strong position in existing business software categories. It is that the same structural advantages are extended into enterprise AI.

Microsoft is uniquely positioned to link:

- a dominant business software layer;
- a major cloud infrastructure platform; and
- and embedded AI functionality across workplace workflows.

That combination creates a powerful ecosystem dynamic. Organisations that already depend on Microsoft’s productivity software, identity layer and data environment may face strong commercial and operational incentives to adopt Azure and Microsoft-native AI tools, even where rival providers offer differentiated or better-value solutions.

This matters because enterprise AI adoption is unlikely to be determined solely by model quality. In practice, it will often turn on where data sits, how workflows are already configured, how identity and permissions are managed, how security and compliance are integrated, and how easy it is to deploy AI tools into day-to-day business software environments. Microsoft already controls many of those layers.

The CMA should therefore assess whether Microsoft’s existing ecosystem position could allow it to:

- make Azure the default or preferred environment for enterprise AI deployment;
- favour Microsoft-native AI assistants through integration, pricing or product design;
- disadvantage rival AI providers through interoperability limits or degraded access; and
- reinforce lock-in by combining business software, cloud and AI into a single self-reinforcing commercial stack.

In short, the future evolution of business software strengthens the case for intervention as technology developments will only serve to reinforce and grow Microsoft’s substantial and entrenched market power.

Part 2: Potential issues and interventions

1. Views on the issues the CMA should focus on

The OCC agrees with the CMA’s proposed focus areas and considers that they capture the right categories of potential harm.

In particular, the CMA is right to focus on:

- leveraging market power into adjacent activities, including cloud;
- technical design and interoperability choices;
- bundling, tying and other commercial arrangements;

- and defaults, design and presentation choices that steer users.

The OCC would emphasise the following points.

Pricing parity should be a central issue

Microsoft's software licensing practices are among the most significant sources of artificial lock-in in the cloud market. Unlike some switching costs, which may reflect underlying technical realities, licensing discrimination is a commercial choice. It can therefore and should be addressed directly.

Where Microsoft software costs materially more to run on rival clouds than on Azure, or where customers lose economic value or flexibility by choosing a rival provider, competition is distorted. The effect is to turn cloud choice into a financially penalised decision for customers dependent on Microsoft software.

The CMA should therefore investigate whether Microsoft's conduct requires interventions that secure genuine pricing parity across cloud providers for relevant Microsoft software.

Functional equivalence should be treated separately from price

Price is only one dimension of competition. The CMA should also investigate whether Microsoft software operates on rival cloud environments with the same functionality, support, performance, update access and security treatment as it does on Azure.

This is especially important in areas such as identity, security and systems administration which provide access to customer's IT infrastructure. If customers face degraded interoperability, slower patching, reduced support or asymmetric integration for these core system functions when using non-Azure environments, the practical effect may be similar to an outright pricing penalty.

The OCC considers this highly significant. Identity and security layers are often the connective tissue of enterprise systems. Restrictions or asymmetries here can have far-reaching competitive effects, including by steering customers toward Azure and other Microsoft services.

Enterprise AI lock-in should be an express issue

The CMA should treat enterprise AI lock-in as an explicit competition concern within this investigation.

If Microsoft can combine existing software dependency with Azure hosting incentives and preferential AI integration, then today's software and cloud distortions will become the basis of tomorrow's AI market power. The CMA should therefore examine whether Microsoft's conduct could foreclose competition not only in current software and cloud markets, but in emerging enterprise AI workflows.

2. Views on necessary, effective and proportionate interventions

If Microsoft is designated with SMS, the OCC considers that the CMA should prioritise interventions that are enforceable, practical and capable of delivering real market change, such as fair, reasonable and non-discriminatory pricing and licence transfer, and functional parity.

Enforceable remedies, not voluntary commitments

The CMA must reject voluntary commitments or any pre-emptive concessions from Microsoft as a substitute for formal and meaningful intervention. Microsoft's recently announced voluntary measures in respect of egress fees

and slight interoperability tweaks do nothing to dismantle structural software-to-cloud leveraging. The CMA should also be mindful the Microsoft has a history of non-compliance with voluntary settlements (CISPE) and perfunctory software licensing changes that do little to improve customer choice. This latter point is discussed in more detail in response to “lessons from other jurisdictions”.

Meaningful change requires formal SMS designation followed by legally binding conduct requirements and pro-competition interventions, which are enforceable over time and subject to severe statutory financial penalties.

No delay

The current indicative timetable, which stretches into early 2027 for a final decision, is too long given that ongoing competitive harm continues to entrench Microsoft's market position. The Slack vs Teams case should remind all stakeholders of the limitations of protracted regulation, where Microsoft’s compliance steps came only after the damage to competitors was already done. The CMA must use an accelerated timeline, developing conduct requirements in parallel with the investigation and establishing immediate escalation mechanisms to prevent procedural stalling.

Maintain the scope

The CMA’s ITC sets out a comprehensive package of key activities, ranging from the prevention of leveraging market power into adjacent activities (applicable to cloud, but also, in the OCC’s view, AI) through to technical, commercial and design considerations. The CMA needs to retain this scope across the full portfolio of candidate descriptions (to include Microsoft’s AI agents). Failure to maintain the scope will undermine the effectiveness and purpose of the investigation and the business software and its adjacent markets, cloud and AI, will continue to entrench Microsoft’s enduring market power.

Real-world outcomes

The CMA should assess success by reference to real-world outcomes, not formal compliance alone.

That means looking at whether interventions result in:

- greater customer switching or credible switching options;
- increased multi-cloud deployment;
- reduced migration barriers;
- more effective interoperability with rival products;
- and improved contestability for rivals.

3. Lessons from other jurisdictions

A key lesson from other jurisdictions is that Microsoft should be expected to respond to regulatory scrutiny not only through direct legal and policy challenge, but also through adaptation. The CMA should therefore assess all potential remedies through a clear anti-circumvention lens.

Microsoft has a long history of altering the form, nomenclature, packaging, or pricing architecture of its conduct in response to scrutiny while preserving much of its underlying commercial effect. The risk for the CMA is therefore not only under-enforcement, but formal compliance coupled with continued competitive distortion in practice.

Several examples are instructive.

Licensing nomenclature changes: “Listed Providers” and “Flexible Virtualization”

In 2019, amid growing scrutiny of how Microsoft leveraged its strength in on-premises software into cloud, Microsoft introduced the concept of “Listed Providers”, explicitly identifying its closest rivals, AWS, Google Cloud, and Alibaba Cloud, as well as its own cloud service, Azure (which, despite being nominally included on the list, was effectively exempted from listed provider restrictions). This change in nomenclature had major commercial effects. Customers who might previously have expected equivalent rights to deploy certain Microsoft software across cloud environments found that they could no longer do so on those providers on equivalent terms without additional licensing purchases, such as Software Assurance or mobility rights.

Following subsequent complaints and regulatory scrutiny, Microsoft introduced the “Flexible Virtualization Benefit” (FVB) in 2022 and presented it as a step towards greater customer choice. However, the benefit expressly excluded those same “Listed Providers”. In practice, the terminology changed, but the core asymmetry remained.

FVB also penalises non “Listed Providers” as financial incentives, such as free passive failover for SQL, which can make cloud migration viable, are stripped away. Microsoft has effectively “de-listed” itself from the rules it imposes on everyone else, creating an illusion of parity.

Alternative rebate models: Azure Hybrid Benefit

The CMA should also be alert to the possibility that apparent neutrality in formal licensing structures may be offset by rebate or pricing mechanisms that preserve the same effect. Azure Hybrid Benefit is an example of this dynamic. Even where Microsoft presents licensing categories in formally general terms, customers using Azure can receive materially more favourable economics when running existing Microsoft software than they can on rival clouds. The result is that deploying the same Microsoft workloads on a competing provider remains systematically more expensive, replicating the commercial effect of an exclusive software-to-cloud tie.

Bundling and suite escalation: E3 to E5 to E7 and security/identity tying

Another lesson is that foreclosure can be reinforced through suite design and tier migration, not only through headline licensing terms. Microsoft has tightly integrated important security, identity, and compliance capabilities into higher-tier Microsoft 365 offerings, particularly E5, which has surpassed E3 to become the most popular enterprise bundle. In practice, this can create strong economic pressure on customers to upgrade across their organisation in order to achieve technical, compliance, or security objectives, even where they might otherwise have preferred standalone or third-party tools. This raises the risk that competitors in identity, security, and adjacent software markets are foreclosed not through explicit exclusion, but through bundle economics and licensing design. The latest launch of the E7 tier threatens to escalate this lock-in, leveraging the necessity of advanced AI and identity capabilities for next-generation workloads to pull customers even further up the proprietary stack and pre-emptively foreclose future AI competitors.

The Teams unbundling experience

The European response to the tying of Teams into Office 365 and Microsoft 365 also offers an important lesson. A formal unbundling remedy does not necessarily restore competition if the incumbent can restructure pricing so that the economic gravity of the bundle remains intact. Market commentary following Microsoft’s Teams unbundling indicated that the discount on suites sold without Teams was limited, while standalone Teams pricing could result in a materially higher overall cost for customers seeking equivalent functionality. The broader lessons for the CMA are the need for timely regulatory intervention in fast growing markets, and that remedies should be judged by competitive outcome, not simply by whether a product has been formally separated.

Per-processor licensing

A longer-run historical lesson can also be drawn from Microsoft's earlier antitrust cases in operating systems. Under "per-processor" licensing arrangements, OEMs were effectively required to pay Microsoft for every processor shipped, regardless of whether they installed Microsoft's operating system or a rival product. That structure made the use of competing operating systems commercially unattractive. When this nomenclature came under pressure, Microsoft adapted its contractual approach rather than abandoning the underlying objective of preserving its distribution advantage. The broader relevance for the CMA is that Microsoft has repeatedly shown an ability to move from one commercial mechanism to another while maintaining the same exclusionary effect.

Taken together, these examples point to a clear conclusion. The CMA should not assess remedies solely by reference to formal product separation, amended terminology, or revised pricing labels. It should assess whether the underlying economic and competitive effects have genuinely changed.

The OCC therefore urges the CMA to draw three practical lessons from these precedents.

First, remedies should be designed around **substance and effect**, not simply form. A change in wording, product architecture, or contractual structure should not be treated as meaningful if the underlying commercial asymmetry remains.

Second, the CMA should build **anti-circumvention protections** directly into any conduct requirements. Microsoft should not be able to recreate the same advantage through revised licensing terminology, pricing architecture, rebates, support conditions, tiering structures, or AI and security bundling.

Third, the CMA should make full use of the **proactive and flexible powers** available under the DMCC Act. A key advantage of the UK regime is that it allows the CMA to intervene in a more forward-looking and ecosystem-wide way than has often been possible elsewhere. The CMA should use those powers to deliver durable benefits to UK customers, including pricing parity, functional equivalence, protection against enterprise AI lock-in, and explicit safeguards against future circumvention.

Conclusion

The OCC considers that the evidence supports designation of Microsoft with SMS in relation to its business software ecosystem.

The CMA's proposed scope is appropriate and should be maintained. The investigation should focus in particular on discriminatory licensing, interoperability restrictions, bundling and defaults, and the extension of these dynamics into enterprise AI.

If Microsoft is designated, the CMA should pursue interventions that are enforceable, timely and robust against circumvention. In the OCC's view, the core red lines for an effective outcome are clear:

- 1. Enforceable remedies, not voluntary commitments:** The CMA should not accept voluntary commitments as a substitute for formal intervention. Any measures proposed by Microsoft must be treated as supplementary and without prejudice to SMS designation. Where competition concerns are identified, remedies should be imposed through binding conduct requirements, enforceable over time and subject to meaningful penalties. This is necessary to ensure that changes are durable and not contingent on continued regulatory scrutiny.

2. **No delay:** The investigation should proceed to a strict and accelerated timetable. Current timelines already appear extended, with a final outcome expected in early 2027, nearly a year after the CMA Board’s decision. In a market where harm to competition is ongoing, such delays risk further entrenching existing advantages. The CMA should leverage the work already completed by the Cloud Services Market Investigation, as the licensing conduct is the same. Conduct requirements should be developed in parallel with the investigation and implemented at the earliest opportunity. The CMA should also establish clear escalation mechanisms where progress is insufficient, ensuring that the process cannot be slowed through negotiation or partial compliance.
3. **No narrowing of scope:** The CMA should maintain the full scope of its investigation as set out in its Issues Statement and related materials. The breadth of concerns already identified reflects the interconnected nature of Microsoft’s cloud and software ecosystem, and narrowing the scope would risk overlooking key sources of competitive harm. Given the depth and comprehensiveness of the CMA’s prior analysis, there should be no retrenchment or deferral of issues. All identified areas of concern should be taken through to assessment and, where necessary, remedy.
4. **Pricing parity:** The CMA should require Microsoft to ensure that its software is priced on equivalent terms across cloud providers. This includes eliminating any pricing structures, discounts, or licensing models that make running Microsoft software on Azure systematically cheaper than on rival clouds. The objective must be genuine pricing parity, supported by transparent and auditable comparisons.
5. **Functional equivalence:** Remedies must ensure that Microsoft software operates on rival clouds with the same level of functionality, performance, and support as on Azure. This includes access to updates, security patches, technical support, and full feature sets on a non-discriminatory basis. Any degradation in capability, whether explicit or indirect, should be treated as a failure to comply.
6. **Real-world outcomes:** The CMA should assess remedies based on their impact in practice, not their form. Microsoft should be required to demonstrate that changes result in measurable improvements in customer behaviour, including switching, multi-cloud adoption, and reduced barriers to migration. The CMA should have mechanisms in place to monitor and verify these outcomes on an ongoing basis, ensuring that formal compliance translates into real competitive effects.
7. **No circumvention:** Remedies must be designed to prevent Microsoft from recreating the same competitive advantages through alternative means. This includes bundling, rebates, revised licensing structures, or other commercial strategies that replicate the effects of the original conduct. The CMA should take a broad and forward-looking view of circumvention risk, ensuring that interventions remain effective as business models evolve.
8. **No enterprise AI lock-in:** The CMA should ensure that remedies extend to the next generation of enterprise software, including AI tools such as Copilot and agent-based systems. There is a clear risk that existing cloud and software distortions are carried forward into these markets, reinforcing Microsoft’s position. Remedies should therefore prevent preferential integration, pricing, or functionality that would lock customers into Microsoft’s ecosystem in emerging AI-driven workflows.

The significance of this investigation extends beyond business software alone. It is a test of whether the UK can ensure open and competitive outcomes across the connected markets of software, cloud and enterprise AI.