

Cloud market study – interim findings

29 June 2023

These slides are a high-level summary of the detailed provisional findings set out in the Interim Report published on 5 April 2023. They are to be read alongside the Interim Report.



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Introduction

What is a Market Study?

- Ofcom has a concurrent power to undertake a market study. A market study is an opportunity to examine why particular markets may or may not be working well and in the interests of consumers. We have the power to make a market investigation reference (“MIR”) to the CMA where we have *reasonable grounds* to suspect that a feature or combination of features in a market prevents, restricts or distorts competition.

Timings

- We have a statutory duty to (i) publish a proposal to make an MIR and (ii) initiate a consultation about that MIR proposal within six months.
- We published our interim report on **5 April 2023**, and must publish our final report and MIR decision by **5 October 2023**.

Scope

- Public cloud
- Cloud infrastructure – IaaS and PaaS
- A focus on any implications in the telecoms and broadcasting sectors

Evidence

- Context Consulting market research, incl. 64 interviews and a survey with over 1,000 respondents
- Direct meetings with more than 50 Stakeholders and statutory Requests for Information

Provisional assessment

Barriers to competition are leading to worse market outcomes

Despite some positive signs of competition, we have found that there are barriers to switching and multi-cloud that may limit competition.

Features that may be limiting competition

- Egress Fees
- Technical barriers
- Committed Spend Discounts

Proposal for an MIR

Given our concerns, we are consulting on a proposal to refer the market for the supply of public cloud infrastructure services to the CMA for a market investigation.

Other Areas

There are other areas that we have looked at, including:

- Microsoft licensing practices
- Transparency and billing and complexity of predicting usage
- Skills lock-in
- ISV-Hyperscaler relationship

Egress fees

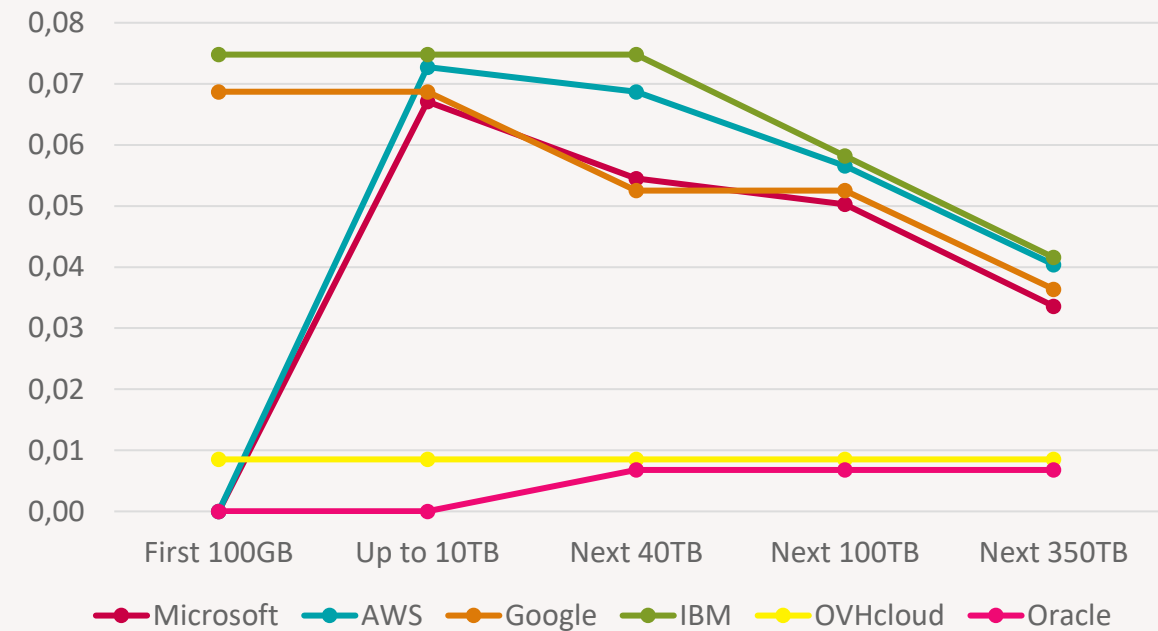
The **financial charges customer face** when they transfer data out of a cloud provider's infrastructure

- There are strong indications that **egress fees act as a barrier** to customers adopting multi-cloud architectures and switching between cloud providers
- Indications that egress fees are **above the incremental cost** of providing data transfer

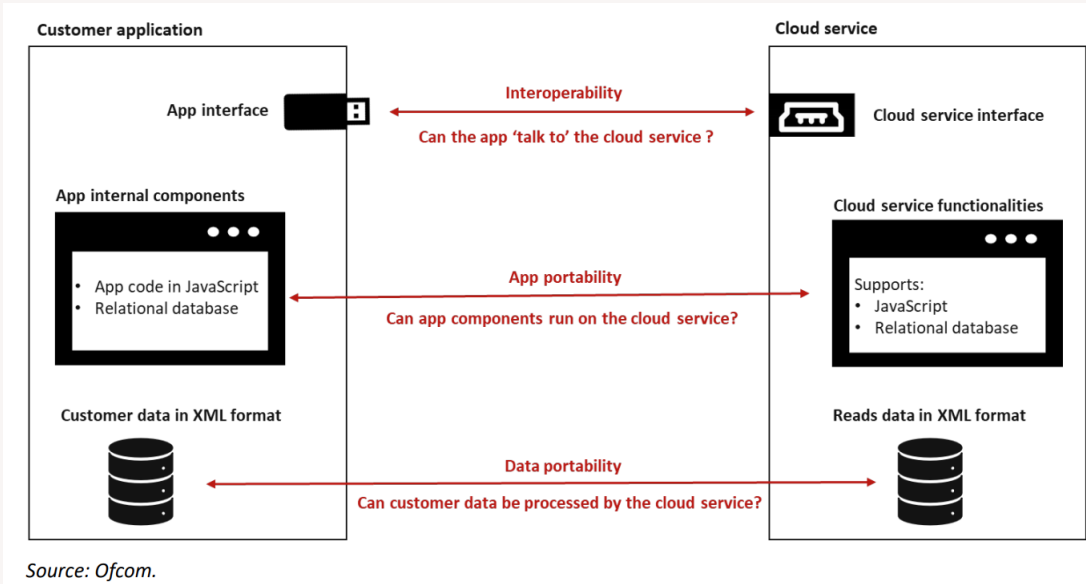
Questions

- Do you agree that egress fees are a material barrier to switching and multi-cloud for some customers? If so, what should be done about it?
- If egress fees were reduced or removed would this change how you think about your use of cloud?

Egress fees for transferring data out via the public internet, March 2023 (GBP per GB)



Interoperability and portability



The **technical effort that customers face** when switching or adopting a multi-cloud architecture.

- Customers that wish to switch or multi-cloud are always likely to face some technical barriers because of technical differentiation between clouds.
- Hyperscalers offer cloud services that can mitigate the technical barriers, but we see limited take-up.
- Hyperscalers, particularly AWS and Microsoft, may be exacerbating the technical barriers by:
 - developing cloud services on open-source software & open standards, but making adjustments that lower compatibility.
 - placing restrictions on the interoperability of some of their cloud services.

Questions

- Do you agree with our assessment of the issues associated with interoperability and portability?
- Are there other technical barriers which stop or make it more difficult for customers to use cloud services as they would wish?

Committed spend discounts

1

Committed spend discounts are when a large customer agrees to spend a set amount with a hyperscaler in return for a percentage discount. If a customer does not reach their commitment, they are expected to pay the difference.

2

Discounting can benefit customers through lower prices, and spending commitments may allow cloud providers to forecast future capacity, which supports their investment in infrastructure.

3

The **structure** of these discounts may **encourage larger customers to use a single hyperscaler** for all or most of their needs.

4

This could **limit the ability of smaller providers** to gain scale and act as a barrier to entry and expansion.

Question

How much of a role do committed spend discounts play when customers are considering which provider to use for some or all of their requirements?

Next Steps

**Consultation closed
17 May 2023**

**Contact details
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**Final report deadline
5 October 2023**