VIEW FROM THE CHIEF ANALYST: CMA & THE PERCEIVED POWER OF GAMMAN

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VIEW FROM TECHMARKETVIEW CHIEF ANALYST, GEORGINA O'TOOLE

The Competition & Markets Authority (CMA) has a headache and it's shaped in the form of GAMMA – **Google**, **Amazon**, **Microsoft**, **Meta**, and **Apple**. Adding **Nvidia** to that list makes GAMMAN.

The CMA is finding that it must pedal increasingly hard to keep up with – and fully understand – developments in the Digital Market; one where the combination of these firms has significant market share and has the potential to wield substantial influence.

The CMA Digital Markets Unit already has an investigation underway into competition in the Public Cloud Infrastructure market. In October last year (see *Ofcom refers UK cloud market to CMA | TechMarketView*), the organisation confirmed that it would explore whether "technical barriers, fees to transfer data, volume discounts, and software licensing practices" are hindering competition in cloud services. The investigation is ongoing and won't reach its final conclusion until April 2025.

However, with the speed of developments in the Digital Market, not least related to the excitement around – and accelerative impact of – Generative AI and related Foundational Models, April 2025 seems a long way off. Indeed, it's clear that the CMA believes it has already acted too slowly, allowing the dominance of the large Hyperscalers to grow, and resulting in limited market choice. It is that belief, that it has allowed a few major US technology firms – namely GAMMA – to dominate the Public Cloud market, that is leading it to act with extreme caution when it comes to the latest developments in Digital, namely Generative AI (GenAI) and Foundation Models.

On 11th April, the CMA published a *paper* updating on its work reviewing the impact of Foundational Models on competition and consumer protection. It has only been six months since it published its previous paper. Yet, such is the nature of the market, in that time, a range of developments have altered the shape of the Foundational Model ecosystem. And the CMA is worried that the GAMMAN companies have both the increasing ability and the incentive to shape the market in their own interests.

For the CMA, developments have resulted in an increasing array of concerns. It is now "determined to learn the lessons of history" and act – by improving its regulatory practices and decision-making processes – to prevent the "winner takes all dynamic" that it believes has already led to the rise of powerful platforms (Microsoft, Amazon and Google, in particular).

The problem it has is that these two issues are intrinsically linked. If this contingent of technology incumbents hadn't already established such a domineering position, the CMA wouldn't have the same cause to query the impact of Foundational Models. The CMA's concerns all point back to the GAMMAN companies and their surrounding ecosystems; it has identified an "interconnected web" of 90 partnerships and strategic investments involving Google, Amazon, Microsoft, Meta, Apple and Nvidia. The fear is that these suppliers will use their incumbent position in Public Cloud services to shape Foundational Model-related markets to the detriment of fair, open, and effective competition.

The CMA has raised three main causes for concern:

- That firms controlling critical inputs – like compute, data, and talent – for developing Foundational Models may restrict access to shield themselves from competition;
- That powerful incumbents could exploit their positions in consumer or business facing markets – as providers of key access points, like apps or platforms - to distort choice in Foundational Model services and restrict competition in deployment;
- And that partnerships involving key players – such as that between Microsoft and OpenAI (see *CMA to examine Microsoft's partnership with OpenAI | TechMarketView*) – could exacerbate existing positions of market power through the value chain.

A few questions spring to mind. Firstly, is there actually a problem at all? Secondly, does the CMA have the teeth to make a difference? And thirdly, even with the teeth, how likely is it to act?

In trying to answer the first question, I spoke with TechMarketView's Principal Analyst, Simon Baxter, who has written extensively on the topic of AI and Foundation Models (see *Artificial Intelligence: Market Trends, Use Cases and Suppliers | TechMarketView*) to determine his view: (see over)

IN CONVERSATION WITH PRINCIPAL ANALYST, SIMON BAXTER

Simon, do you believe the fears of the CMA are founded?

I think that the concerns of the CMA are largely unfounded. They themselves highlight the number of Foundation Models (FMs) on the market, and that number continues to grow. If anything, there is too much choice for organisations at present. A significant challenge in building AI applications is determining what AI model to even use in the first place.

There are at present no clearcut best AI models, the market is still in a state of rapid innovation and experimentation, and whilst well known FMs like GPT-4 are the biggest in terms of the amount of data they are trained on, they are not always the most practical or cost efficient. This is why we see many organisations running proof of concept trials across a range of different AI models. This helps provide great opportunities for competition.

It sounds like you're saying that there's no reason to fear a monopoly or oligopoly of Foundational Models?

We must be realistic. There are very few organisations who will have the resources or desire to build their own Foundation Models, certainly ones to the scale of GPT or Gemini. Building FMs is inherently expensive and requires a huge amount of expertise, as the CMA themselves point out. So, was this not a predictable and inevitable conclusion that those with the deepest pockets would be the ones to be able to commit the resources to build large scale FMs? Another important point when it comes to AI models is that bigger is not always better, smaller models can often still outperform under the right conditions and use cases. IBM's Granite models for example are much smaller in comparison but are still gaining good traction with end user organisations as they still perform very well in specialised business use cases.

But could that fear come to pass as the market consolidates?

There is bound to be consolidation of Foundation Models over the next 5+ years, largely in line with what the CMA said, but I'm struggling to see how this is anything other than the natural progression of technology maturing (just as we saw with Cloud and Enterprise software). All the Hyperscalers are hedging their bets at the moment, through a mixture of internal AI model development and investment in third parties like Mistral, Anthropic and OpenAI. This is to be expected as there is no clear projected winner in the race to build the best AI FM. From an end user perspective there is also little benefit to running 10+ different FMs across an organisation over the long term.

If you look at other domains like Cybersecurity, organisations are now going through a period of platform consolidation following a boom in the number of targeted solution

providers, something I expect to happen with AI as well a few years down the line. Future IT environments will be both hybrid cloud and multi-model, with several AI models tailored to specific use cases and price points, likely running on multiple different AI FMs. There are already a number of tools in development to allow you to compare different models across different business problems. A demand from customers for transparency and to understand ROI will help drive competition in the market.

Do you see the Hyperscalers using their dominance to influence the market?

The have been very open about other Foundation Model providers utilising their platforms, in fact they are encouraging it. Google, for example, provides access to over 130 models through its Vertex platform, in direct competition to their own Gemini models. They have been clear that they want to be the mechanism to provide access to the AI ecosystem and the platform to build AI models on, whether that is their own models or those from competitors, they aren't precious about it. Microsoft and AWS are taking a similar approach, recognising that limiting choice will only be a detriment to customers right now.

We have multiple AI FMs, many independently owned and funded like Mistral, a number of open-source AI models, such as Llama 3 from Meta, and a growing ecosystem of smaller specialised AI model suppliers. Yes, the Hyperscalers do retain a high degree of power to influence the market through investment, and if you wanted to build AI using a particular FM you may be limited by the cloud platform you could use but given the number of models to choose from, this feels like far from a real-world problem right now.

But do smaller competitors of the Hyperscalers take the same view?

I spoke to several companies at Google Cloud Next who are competitors of Google across a number of domains, from API integration to those building platforms to support AI model development. All were happy to be part of the Google partner ecosystem, none were concerned about being overshadowed. Simply put there is more than enough demand to go around for AI.

The competition in the wider partner ecosystem is interesting. It's not just about the Foundational Models, is it?

Foundation models are exactly that, a foundation, not the final answer. To make AI FM models really useful in a business context they need to be trained on proprietary business data, and this is what we see a huge number of organisations doing right now.

Many organisations are building their own SLMs (small language models), often with the help of the service integrators. This is where there is a huge amount of competition and ability to differentiate. There is also high demand for the services that wrap around building AI, from consulting to software development support, to ongoing fine tuning, as well as the broader wrapper of infrastructure, data management and security.

We also have all the enterprise software providers such as SAP and ServiceNow who are enhancing their solutions through AI, and it is through such software many organisations will find the most value in using AI, not in building proprietary models. The AI market is

So, Simon's view is that the CMA's fears are largely unfounded; indeed, the CMA has uncovered limited evidence to date that its main concerns are at risk of becoming reality.

As Simon rightly highlights, the behaviour of the GAMMAN contingent has done little – if anything – to stifle competition for Foundational Models. According to the CMA, in the last six months alone, the number of Foundational Models globally has increased by 39% – or 120 – to 330. The Hyperscalers do not seem to be controlling critical inputs – across compute, data, and talent – to an extent that is having any meaningful impact. To date, any evidence of current practices that could readily be defined as anti-competitive behaviour appears to be limited to one example: the CMA highlights the ability of the GAMMAN contingent to offer incredibly high rewards to attract talent.

Meanwhile, when it comes to the incumbents exploiting their positions in the consumer and business facing markets, while many end users will be inclined to test the waters of emerging tech (including the use of GenAI and Foundational Models) via established and trusted apps or platforms, those apps or platforms are delivered by a supplier ecosystem that extends far beyond the GAMMAN contingent.

And finally, when it comes to the existence of partnerships that might allow the Hyperscalers to exacerbate existing positions of market power through the supply chain, the reaction to the current CMA investigation into the Microsoft-OpenAI partnership speaks volumes. The Information Technology and Innovation Foundation (ITIF)'s *response* to the investigation makes three key points: 1) that the Microsoft-OpenAI partnership does not meet the criteria set for a "relevant merger situation" as set forth in the Enterprise Act 2002, and thus the CMA should not intervene; 2) that even if the CMA believes that the partnership reaches the threshold to create a relevant merger situation, the partnership does not have a negative impact on competition; and 3) any potentially negative impacts on competition would be justified by the pro-competitive impact of this partnership.

In any event, the CMA has only, so far, been able to go as far as *urging* these firms to align their business practices with the CMA principles and to work with the organisation to shape positive market outcomes. Those principles – of Access, Diversity, Choice, Fair Dealing, Transparency and Accountability – are further explained in the CMA's paper. The CMA has worked hard to build close relationships with these leading tech providers to start to influence their behaviours. However, it is set to have additional powers to do more – and take enforcement action – should it see fit, once the UK Government's Digital Markets,

Competition and Consumers Bill is given Royal Assent (the Bill is currently being considered by the House of Lords).

The Bill is intended to give the CMA the power to impose tailored conduct requirements on firms that are found to have "substantial and entrenched market powers in a digital activity". Those companies will be given Strategic Market Status or SMS. Under the Bill, the CMA would have powers to serve fines of up to 10% of the SMS firm's global turnover. It would also be able to make pro-competition intervention orders.

In the first year following the introduction of the Bill, the CMA expects, according to Managing Director, Sarah Cardell, to start three to four SMS investigations. However, there will need to be an evidence-based investigation and a public consultation before a company is given SMS status in relation to one or more digital activities. And it remains, based on our analysis, completely feasible that the CMA will find no reason to take any direct enforcement action against the GAMMAN contingent. However, if it does, we can take a wild guess – based on their positioning across the Foundational Model value chain – that Microsoft, Google, and Amazon – are likely to be the strongest contenders. One area of potential consideration is critical access points or routes to market for Foundational Model deployment, such as mobile ecosystems, search, and productivity software.

An additional issue that the CMA will face is that it is a UK Government organisation trying to tackle the behaviour of companies on a global stage. While the likes of both Amazon and Microsoft have previously stated, in relation to the CMA's public cloud infrastructure investigation, that they would co-operate constructively with the CMA, they have also indicated that they believe unwarranted intervention could actually harm competition and customer choice.

The CMA admits that it will need to cooperate effectively with pro-competition organisations in other countries to have an impact. And it's true that several other geographies are taking steps to introduce similar rules; that alignment will be helpful. But it is unclear how well cross-border co-operation will work to enable effective enforcement.

In summary, the CMA faces many hurdles – that will span many years – before it has any chance of being able to say it has had a measurable impact. And that's if it even decides to act at all.

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Georgina O'Toole is Chief Analyst at TechMarketView, a role that encompasses thought leadership and business development. Georgina is well-known in the industry and is regularly called upon by both IT services companies and end user organisations for her in-depth analysis, opinion, and advice, via written reports, bespoke engagements, or presentations. Georgina joined TechMarketView as a Research Director to design and launch PublicSectorViews TechMarketView's first specialist research stream - in February 2010.

She is a respected industry analyst known for her commentary on the UK software and IT services market and for her in depth knowledge of the public sector, having primarily focused on the sector for twenty years.

Before joining TechMarketView, Georgina was Practice Leader for Ovum's Geographies & Industries practice (alongside Tola Sargeant) where she was responsible for Ovum's government research globally. As an analyst at Ovum Holway from 2000, Georgina had previously worked closely with both enterprise and vendor clients providing advice and opinion on the SITS market. She was instrumental in the launch of Ovum's well respected PublicSector@Ovum research programme in 2004 and went on to focus her research on the UK central government, defence and criminal justice markets. As a lead analyst in these sectors, Georgina's opinion was valued by a variety of clients including IT services companies, major defence contractors and the UK Ministry of Defence.

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Simon joined TechMarketView in March 2022 as a Principal Analyst as part of the TechSectorViews research stream. Simon is our lead analyst for Cybersecurity, Quantum and Artificial Intelligence. He has over 12 years of experience in research and analysis across the Global and UK IT markets, working with strategy and business development functions to shape how emerging technologies can drive real-world digital transformation for organisations.

Immediately prior to joining TechMarketView Simon held the position of Senior Market Intelligence Manager at Fujitsu Services Ltd. and was responsible for embedding market insight into Fujitsu's decision making and leading a range of market research programmes and teams across Fujitsu's global business encompassing Europe, North America and Japan.

Simon has a BA (Hons) in Marketing and Management from Newcastle University.

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