# Cloud services market study

**BT response to Ofcom's interim report & proposal for a market investigation reference**

17 May 2023

## BT Group

# Executive summary

BT welcomes Ofcom's interim report on their Cloud Services Market Study which is an important step for the market to work well for competition and customers.  We have previously provided our views on market dynamics in our response to Ofcom's Call for Inputs[1] and agree with Ofcom's broad recommendation for a market investigation reference.  The focus of this response is on Ofcom's proposed view on key barriers to switching and multi-cloud approaches, as well as ways in which they could be addressed (either by way of regulation or undertakings in lieu of a reference).

We agree with Ofcom's general conclusions in the interim report and provide comments relating to three key areas:

1) **Technical interoperability and portability** are crucial. There are a number of quick wins, such as greater transparency and unbundling.
2) **Egress fees** are not justified and, at a minimum, they must be transparent, easily accessible, and predictable at the start of the contract for its duration.  Greater ability to predict costs at the outset would help reduce barriers to switching.
3) We understand concerns about **committed spend discounts**, but think other interventions (on interoperability and egress fees) will have a greater impact on competition.

**N.B**. "[✂]" indicates text which has been redacted for publication.

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[1] https://www.ofcom.org.uk/__data/assets/pdf_file/0031/248935/BT.pdf

# Technical interoperability is crucial and there are a number of quick wins

Improving interoperability and portability between Cloud Service Providers (CSPs) can enable better outcomes for customers, facilitating switching, preventing lock-in and improving the viability of multi-cloud approaches.

Industry may conclude that standardisation can provide a longer-term solution to technical interoperability.  In the shorter-term, some measures could provide more timely benefits, e.g.:

- **Transparency** about the interoperability of CSP services – both at the time the initial contract for the cloud service is concluded and as new features are introduced; and
- **Unbundling**: Cloud services offered by CSPs should be 'unbundled' or 'separated' into their individual elements to allow third-party services to interoperate with those individual elements.  It should be possible to buy complementary first and third party elements on equally transparent terms. For instance, containerisation[2] solutions which use a CSP's native technologies should be offered on the same terms  as technically equivalent solutions based on third-party or open-source technology.

Ofcom differentiates between 'siloed multi-cloud[3]' and 'integrated multi-cloud[4]'.  Even in an 'integrated multi-cloud' environment, where applications and workloads can be switched between platforms, technical challenges such as latency will continue to be present.  We feel that it would be impractical for customers to operate a fully 'integrated' multi-cloud solution for all workloads, even where the commercial barriers to doing this were removed. Regulators should instead focus on enabling the integration of applications and data hosted in different cloud platforms, instead of the ability to run single applications or workloads across multiple environments. Specifically this should ensure:

- Applications running on different platforms can work with one another,
- Separate workloads within large-scale enterprise applications can interoperate across different platforms, and
- It is possible to switch workloads from one provider to another with reasonable speed and ease.

# Egress fees should be removed and built into up-front costs to improve predictability

The interim report found that the cost of egress fees can discourage customers from using services from more than one cloud provider and in some cases can make it more costly to switch. Specifically, Ofcom's analysis indicates that the hyperscalers appear to set the level of their egress fees above the underlying cost of transferring data and that smaller CSPs are able to offer significantly lower egress fees than larger providers.

Further to disincentivising switching, high egress fees  can also create a commercial barrier to innovative cloud use cases, for example many network cloud use cases require large amounts of data to be egressed, and some resilience solutions may require large-scale data egress to duplicate data on multiple platforms.

Our preference would be to see egress fees removed in their current form and the cost of egress built into up-front charges.  This would ensure fairness, remove barriers to switching, multi-cloud and innovative use-cases, and increase customers' ability to predict costs.

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[2] A container is a package of software that bundles an application's code with any necessary software required for the application to run (e.g. configuration files and libraries).

[3] *"The customer runs different customer applications, stores different customer data sets and/or uses different cloud services hosted on two or more public clouds with no or minimal integration between these clouds."* (Interim Report, 5.20 c)

[4] *"The customer integrates different customer applications, customer data, and/or cloud services hosted on two or more public clouds into a consolidated architecture."* (Interim Report, 5.20 a)

An alternative approach would be to place price controls on egress fees *"at cost"*.  That said, it may be challenging to establish the cost of data egress and prices would require regular review (as the cost of data storage and transport is likely to diminish over time), so the effort required to maintain price controls may not be proportionate.

We caution against Ofcom's proposal to equalise egress fees with other charges (e.g. *"other standard data charges incurred by customers"*).  We think this would be complex and that a comparison with internal transfer fees could be susceptible to obfuscation.

Ofcom's findings also highlighted challenges predicting cloud spend and suggested that transparency of billing (question 8.4) could be an area of intervention.  As well as forecasting costs, BT has found it challenging to retrospectively analyse our data egress spend. We agree that greater transparency in billing would facilitate comparison of service providers.

# We understand concerns about committed spend discounts, but think other interventions will have a greater impact on competition

Ofcom states that committed spend discounts can benefit customers by reducing their costs, but that the way these discounts are structured can incentivise customers to use a single CSP for all or most of their cloud needs, making it less attractive to use rival providers as new needs emerge.

At the moment we do not see these discounts inhibiting our choice of provider, as indicated by our 'best in kind' multi-cloud strategy[5].  We think that it's much more important to focus on other potential barriers to switching (and innovation) such as interoperability and egress fees.

[✂]

Committed spend discounts are a common feature of many markets and provide the certainty needed to feed the necessary investment in costly infrastructure.  Care should be taken by regulators to avoid remedies which result in higher prices for customers or reduced investment from providers.

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[5] See Section 2.3 of BT's response to Ofcom's Call for Inputs: BT (ofcom.org.uk)

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