Fuelling the Future

The Role of AI Partnerships

December 2025

STARTUP
C*ALITION

Authors

Vinous Ali
Deputy Executive Director
Startup Coalition

About Startup Coalition

The Startup Coalition is an independent advocacy group that serves as the policy voice for the UK's technology-led startups and scaleups. We were founded in 2010 by Mike Butcher, Editor-at-Large of TechCrunch, and Jeff Lynn, Chairman and Co-Founder of online investment platform Seedrs. We fight for a policy environment that enables early-stage British tech companies to grow, scale, and compete globally.

Our network includes over 4000 startups, scale-ups, and investors. We have been instrumental in building proactive coalitions of businesses and investors on issues integral to the health of the UK's startup ecosystem. Our work has seen many successes, from the establishment of the Future Fund to the creation of the Scale-up visa.

Acknowledgements

We are grateful to all the founders and investors who shared their time, insights, expertise - and yes - frustrations with us.

Introduction

The emergence of generative AI marks a pivotal technological shift, poised to fundamentally reshape industries and economies globally. At the core of this revolution lie foundation models.

Over the course of the last year, Startup Coalition has explored how the UK - with the support of government - can seize the opportunity generative AI offers. Through a series of papers we have explored how Government can open up data it holds (Data: the lifeblood of UK AI startups), ensure regulation is not a barrier (A pro-innovation Regulatory Innovation Office) and offered our thoughts on what role Government can play in both stimulating, aggregating and resourcing demand for compute (Hard to Compute).

In all these areas the government is making huge strides forward to equip our AI startups with what they need to go toe to toe with leading nations in the AI race. This alone will not be enough. The development and scaling of these models demands immense resources - compute power, vast datasets, and specialised talent that few individual startups possess and which the government alone cannot plug.

Strategic partnerships between innovative AI startups and larger technology firms have emerged as a way to bridge this gap. These partnerships act as critical conduits for capital infusion, offering unfettered access to compute infrastructure and accelerated market reach.

These collaborations are not merely beneficial; they are essential for democratising access to compute-intensive AI development, unlocking significant efficiencies that drive innovation and allowing knowledge and talent to move more freely. In short, partnerships help relieve challenges of scarcity that abound in this field.

These new partnerships have raised red flags for the Competition and Markets Authority (CMA) which has dedicated significant effort, both to understanding the dynamics of these relationships, and what they mean for competition in an area moving at “a whirlwind pace” (their words not ours, although we agree!).[1]

The CMA’s approach understandably stems from a legitimate desire to avoid what many see as past regulatory lags in digital markets; however, it risks misinterpreting the nuanced dynamics of the nascent AI ecosystem. The historical concern of being too slow to act in previous digital market developments appears to be driving a rapid, undifferentiated response to AI.

This desire, which is recognisable in a number of jurisdictions, is having a negative impact on what is an emerging market. Simply put - firms are increasingly favouring alternative structures, to mitigate against r regulatory risk. This trend highlights a fundamental challenge in applying established competition law frameworks to the rapid and often intangible evolution of the AI ecosystem.

It is not too late to change course. The CMA has been developing a new mode of operating, centred on

[1] https://www.gov.uk/government/news/cma-outlines-growing-concerns-in-markets-for-ai-foundation-models

what has come to be lovingly known as the ‘4 Ps’:

- pace,
- predictability,
- proportionality, and
- process.

Together the 4Ps form the CMA’s north-star. They are its articulation of how regulators can be partners for innovation and growth, responding and aligning to the Government's own call to action laid out in the Regulation Action Plan.

Translating this framework into action is well underway. In October of this year, the CMA launched a consultation on its draft update to the Merger Remedies Guidance. Much of this aims at codifying the more permissive approach we are already starting to see emerge from the CMA in various commentary. - this is welcome. Startups may thrive in uncertain waters when it comes to business but predictability is key in the case of regulation.

However, changes to guidance and a culture-shift to better align with the government’s pro-growth mission will only take the CMA so far. In some cases legislative action is needed to enable the CMA to fully deliver on its 4Ps and restore trust after a period where it has felt that it has been pushing at the limits of its discretion.

The rules, and discretion around them, have a tangible impact on whether companies want to invest and set up shop here in the UK, and whether talented people want to build here. If our rules seem too strict or unclear, these founders will just go somewhere else - after all often these are small teams whose only anchor is the weight of their ever-increasingly lightweight laptops.

If the Department for Business and Trade (DBT), as sponsor of the CMA, is opening the can of primary legislation as suggested in the recent **Regulation Action Plan - Progress Update and Next Steps**, it should be bold. The CMA has shown a willingness, and even enthusiasm, to change how it looks at competition in this space, but ultimately the radical change that allows the UK to become a hub for startup activity in the AI economy rests with the Government.

The Imperative of Partnerships

Generative AI represents a transformative technological advancement. However, the substantial capital, computational resources, and specialised expertise required for developing advanced AI models creates challenges for startups looking to capitalise on this opportunity.

Consequently, strategic partnerships with established technology firms have become a crucial mechanism for these startups to access necessary resources, accelerate innovation, and facilitate market entry. These partnerships offer AI startups a lifeline and the ability to scale when even venture capital moves too slowly or does not have the wherewithal. In 2023, two-thirds of the funds raised by AI startups came from these more established players.[2]

What strategic partners offer AI startups:

Enhanced Financial Capacity	Partnerships are a key capital injection. The development of advanced AI necessitates sustained research and development expenditure and the ability to attract highly skilled professionals in a competitive labour market. Financial backing from established partners enables startups to pursue long-term research objectives and attract top-tier talent without immediate concerns regarding financial viability. In short, these partners fill the role founders would often look to VC money to play.
Unfettered Access to Computational Infrastructure	A significant benefit is access to compute from the hyperscalers - Alphabet, Amazon and Microsoft. Structured partnership deals bring the cost down substantially. Given the concentration of critical resources such as cloud computing and specialised processors within major technology companies, these partnerships serve as a vital conduit for startups to train and develop their AI models. This access ultimately fosters a more diverse and competitive market by lowering the barriers to entry for advanced AI development - facilitating, rather than impeding competition.
Accelerated Market Entry and Model Refinement	Partnerships often come with a testing ground for models to be trialled and improved. This enables AI startups to rapidly deploy their models, gather user feedback in real-world scenarios, and iterate on their development. This expedited path to market and continuous improvement are essential for the creation of practical and effective AI solutions.

Collaborations like this to accelerate the pace of progress are not a new phenomenon. Studying the biotechnology industry in the early 1990s, Powell et al described how there was a *“large-scale reliance*

[2] https://law.stanford.edu/2025/03/21/ai-partnerships-beyond-control-lessons-from-the-openai-microsoft-saga/

on interorganizational collaborations…reflect[ing] a fundamental and pervasive concern with access to knowledge." The authors described how those that failed to collaborate - or were forming these links suffered from a 'liability of unconnectedness'.[3] While their study focused on biotech, they concluded that:

> "These conditions are not limited to biotechnology. In fields as diverse as ceramics and software, much of the relevant know-how is neither located inside an organization nor readily available for purchase. When the sources of knowledge are disparate and the pathways of technological development uncharted, we would expect the emergence of networks of learning."

The advent of AI and the resources it demands not only meet but exceed the criteria set down by Powell and his colleagues just shy of 30 years ago.

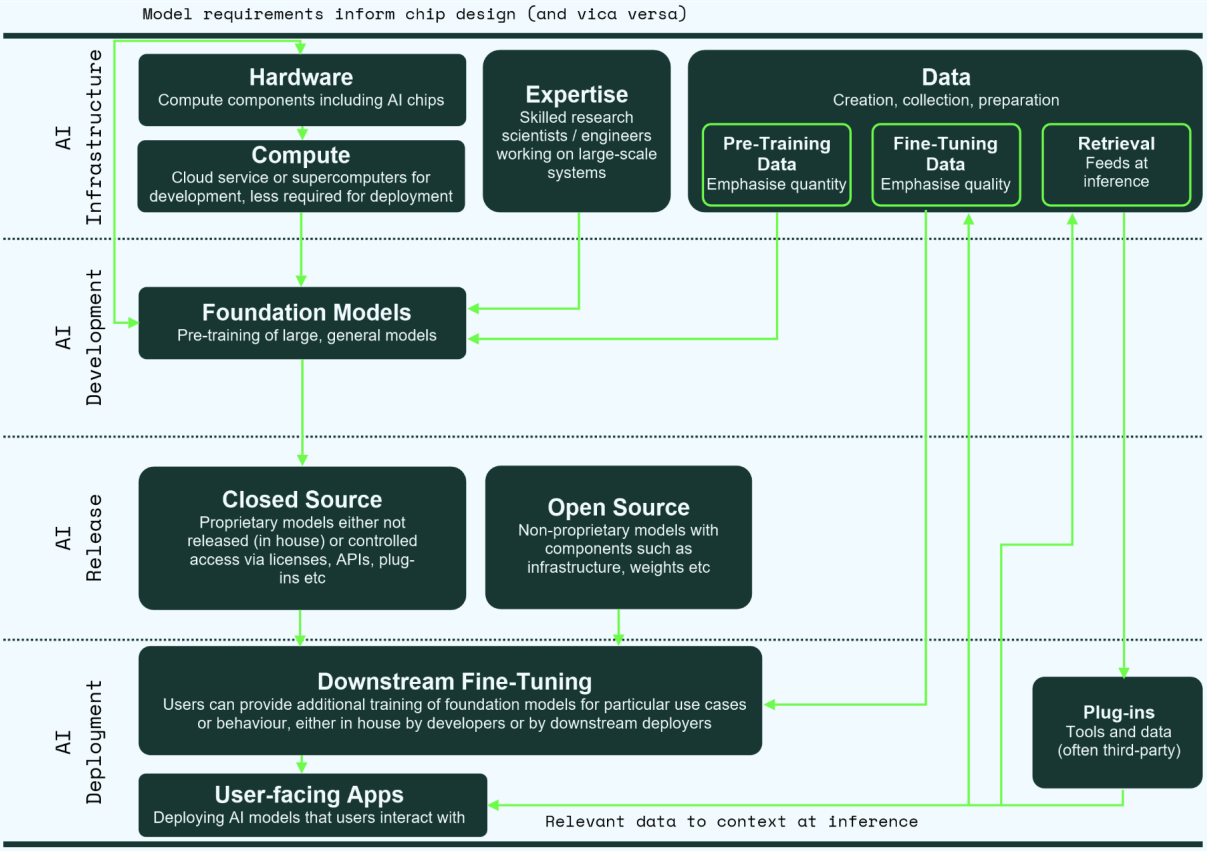
Case Study: Wayve and Nvidia

Since 2018, Wayve - a leading UK developer of embodied intelligence for autonomous vehicles - has partnered with Nvidia to drive (no pun intended) its mission. In 2024 Nvidia even participated in its Series C round.

The partnership has enhanced Wayve's research and path to market by enabling seamless embedded integration of Wayve's AI models onto NVIDIA's automotive-grade vehicle hardware and achieving strategic ecosystem alignment to ensure Wayve's offerings meet the demands of automakers already relying on NVIDIA's technology.

Moreover, the AI value chain from infrastructure to app layer is a complex ecosystem with many interdependent layers, each with its own set of challenges and specialised actors. Understanding this chain is crucial for grasping the dynamics of the AI industry. For example, the ability to fine-tune on top of a foundation model to develop different applications is a prime example of this complexity allowing entirely new products and businesses to emerge. It is arguable that it is in this app-layer - likely the layer most visible to the general public - that the UK will accrue most value.

[3] http://sjbae.pbworks.com/w/file/fetch/93336412/Powell%20et%20al.%20(1996).%20Interorganizational%20collaboration%20and%20the%20locus%20of%20innovation.%20ASQ.pdf

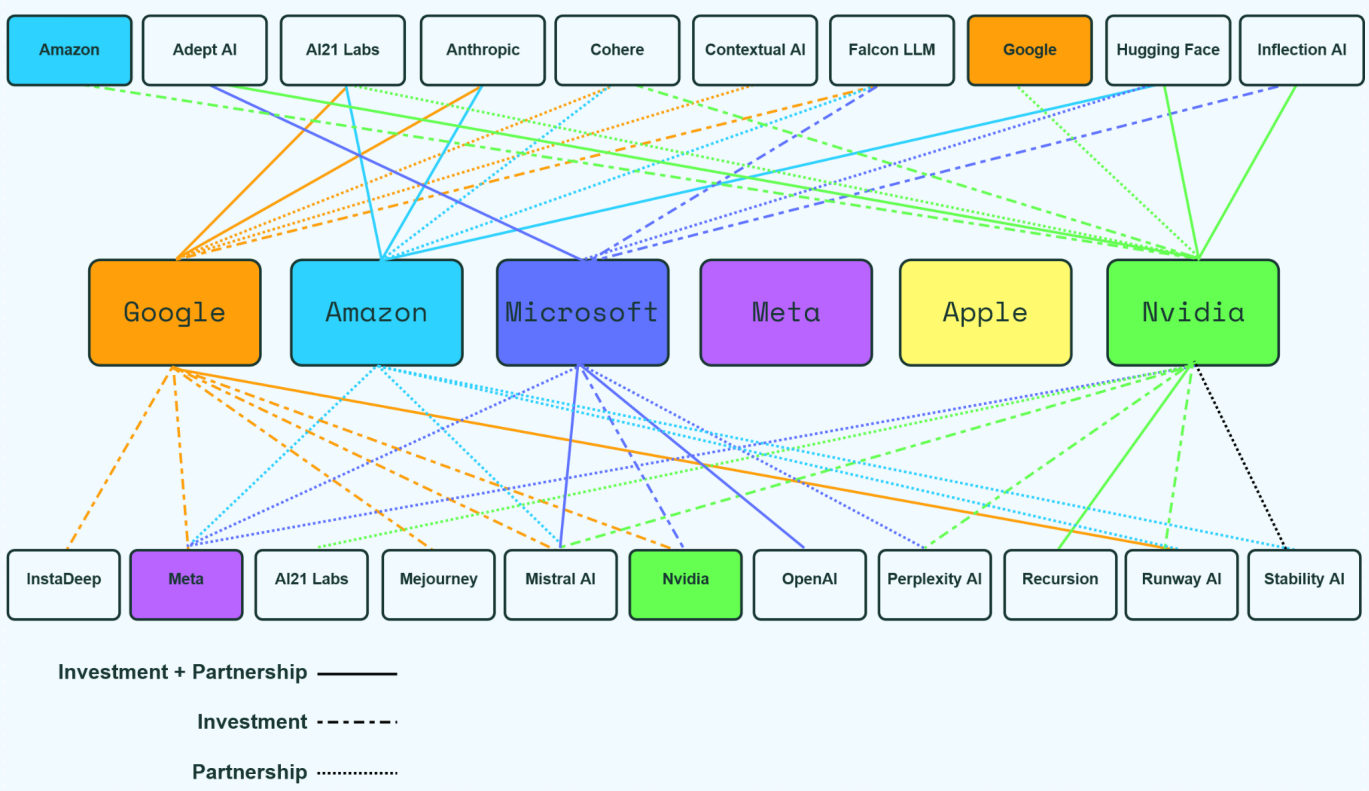


The CMA's Historical Approach

The CMA's historical approach to AI partnerships, while driven by a desire to promote competitive markets, has presented several critical challenges that risked undermining the UK's competitive standing in the global AI landscape.

AI partnerships are novel, structured in a multitude of ways with varying levels of investment, conditions, talent diffusion and yes - varying levels of exclusivity and control. It is understandable that the CMA has wanted to understand the interplay of all these issues. The work the CMA has done in this space has made it a subject matter expert, which is commendable at a time when regulators are often accused of lacking understanding in the very areas that they are responsible for regulating.

Even the way this knowledge has been presented - signalling it was jumping in feet first - has set hares running. For example, in April 2024 the CMA published its *AI Foundation Models: Update paper* which included the image below. This sparked mild panic as it looked more like a 'to do list' than an explainer. From private conversations we know this was far from the CMA's intention, nevertheless, it is worth noting how even the smallest signals can cause ripples in the ecosystem.



Competition authorities have indeed developed sophisticated analytical frameworks and enforcement tools, which are very effective for mature industries and conventional mergers. However, the rapidly evolving nature of digital markets, particularly around AI partnerships, presents a unique challenge.

There's a perception that applying existing merger tools in this context might not fully capture the nuances of these novel collaborations. This approach, while rooted in a commitment to fair competition, could inadvertently overshadow the significant growth potential these partnerships might offer, potentially leading to questions about the CMA's focus on fostering innovation alongside maintaining competition.

Deploying these ill-suited tools to ‘get under the bonnet’ to increase the CMA’s understanding of the issues and dynamics at play is not a victimless crime. While some may argue that none of these investigations (table below) resulted in a full merger investigation and therefore - no harm, no foul - they have undoubtedly chilled the market.

Partnership	Result	Time Taken
Microsoft / OpenAI	Found not to qualify for investigation - Microsoft was deemed not to have control over OpenAI's commercial policy.	15 months
Amazon / Anthropic	Found not to qualify for investigation - did not meet UK turnover or share of supply tests for merger jurisdiction.	5 months
Microsoft / Mistral AI	Cleared on the basis that the CMA did not have jurisdiction (Microsoft's shareholding in Mistral AI was less than 1%, and other agreements were not sufficiently significant to create influence).	< 1 month
Microsoft / Inflection AI	Cleared unconditionally at Phase 1. The CMA found it had jurisdiction, but Inflection's presence in the UK was limited and thus the arrangement did not give rise to competition concerns.	2 months
Alphabet / Anthropic	Found not to qualify for investigation - Alphabet was deemed not to have acquired a sufficient degree of control.	4 months

Even launching a preliminary probe can have on the wider ecosystem. We explore these below:

The Chilling Effect of Prolonged Investigations

Prolonged investigations, or the threat of them forces companies to dedicate time and precious resources to compliance rather than innovation. Valuable talent, capital, and time are redirected from product development and scaling to legal and administrative burdens. This is not merely a minor inconvenience but a substantial "opportunity cost."

Resources that could be dedicated to R&D, scaling operations, or expanding market reach are instead consumed by legal battles, extensive data submissions, and compliance efforts. The implication is that even if an investigation ultimately finds no anti-competitive harm, the regulatory process itself imposes a tangible and detrimental cost on the UK AI ecosystem, potentially slowing down its overall progress and reducing its global competitiveness.

Case Study: Deliveroo and Amazon

Drawn out investigations are nothing new. In 2019 Amazon announced plans to buy a stake in Deliveroo. What followed was an 18 month investigation by the CMA. Will Shu, co-founder of Deliveroo, called the investigation *“the hardest thing I’ve had to deal with”.* Speaking after the CMA cleared the investment, Shu said:

“The investigation took most of my time, they withheld the money from us and we had to fire 30 per cent of our team during that process because we almost ran out of cash…They had no justification for it whatsoever. It was a complete mockery of anything, in my view. I was treated

like a criminal. I had to testify in front of panels. That is the opposite of trying to build companies, or trying to take risk. It's trying to kill companies."

This cost is particularly acute for agile startups with limited reserves. The uncertainty, cost, and burden associated with lengthy investigations can actively discourage necessary collaborations and investments, thereby hindering the very partnerships that are vital for AI startups to scale and innovate. This creates a disincentive for startups to engage in beneficial collaborations.

Lack of Demonstrated Harm

There is a palpable sense that regulators did not act fast enough to understand and respond to the rise of search and the adtech business that sprung from it, and globally there is a feeling that regulators are keen not to miss the boat this time.

Speaking to the American Bar Association, Sarah Cardell (CEO of the CMA) speaking about the rapid development of Foundation Models, said:

> "And in assessing this risk, we are determined to apply the lessons of history. As I look back at the rise of digital markets over the last 10 to 15 years, of course I ask myself whether competition authorities could, or should, have better predicted the pace and scale of digital transformation.
>
> Could we have responded faster to the competitive threats posed by large digital platforms, recognising earlier that the tools we had would need adapting to address the unique challenges posed by this new breed of businesses? With the benefit of hindsight, I think the answer is almost certainly "yes"."

This has resulted in reams of analysis. The initial review of Foundation Models published in September 2023, for example, had to be updated in April 2024 and then further updated in the Autumn of that year.

The difficulty is that in such a rapidly evolving market a preventative stance, driven by speculative harms, which even those who have dedicated their lives to the development and tuning of these models cannot fully understand, may have the unintended consequence of stunting innovation and the markets development in the UK. Sacrificing real-world benefits for theoretical safeguards.

The point about "lack of demonstrated harm" exposes a critical imbalance in the burden of proof. In a dynamic and uncertain market like AI, requiring firms to disprove speculative future harms is an onerous

and potentially impossible task. This effectively shifts the risk of regulatory error from the regulator onto the innovators. For nascent, high-growth markets a higher standard of empirical evidence for competitive harm should be required from the regulator. Interventions should be based on observable market outcomes and demonstrated consumer detriment, rather than allowing preemptive restrictions based on theoretical or projected scenarios, which can stifle legitimate innovation.

The simple truth is that today model development is still a losing game for most companies and where the UK stands to benefit is further up the stack - realising the potential of specialised data and strong foundations to build on. Putting a brake on these partnerships now may mean this market is never able to mature.

At a time where other European capitals are poised to take the UK's tech crown this could be disastrous. A few years ago this would be a stretch for the imagination, yet Dealroom's 2025 *Global Tech Ecosystem Index* ranked Paris ahead of London and countries like Germany, Portugal and Spain are all making big bets on infrastructure to further close the gap between them and the digital frontrunners.

Perhaps, even more fundamentally than this is a simple truth worth underlining. The CMA sits downstream of Government and while is rightly independent at an operational level, it is for Government to set competition - and broader policy - and for the CMA to execute against it.

At the highest level this Government has committed to transforming the UK into an AI powerhouse. It will only achieve this if every part of government and the regulators under its aegis put their shoulder to the wheel in support of this mission.

John Spindler: General Partner, Twin Path Ventures

"If the CMA are going to make it difficult for trade sales of UK AI startups or scale-ups to occur (and the 2021 National Investment Security Act especially when applied to AI startups also does not help) you can start to see a problem. In fact the numbers of Mergers and Acquisitions across all sectors in the UK in 2023 declined by over 17%. So I wondered if the CMA see this reduction in investors and founders ability to liquidise positions and get some form of return through M&A as a success. And let's not go to the total lack of investment appetite to invest in IPO's or tech stocks in general on the London Stock Exchange or AIM.

In short, the consequence of the CMA clamping down on M&A activity especially in the AI space in the UK, is that they make it even harder for investors to get returns. So who is going to fund the development of Foundation Models or applications built on what the CMA keeps saying is an immensely exciting and impactful technology?"[4]

[4] https://www.linkedin.com/pulse/uk-regulators-llms-can-you-see-problem-john-spindler-qpvwe/

A Change of Tactics

The way in which the CMA has approached this issue has had an outsized impact on the global competition. The CMA has cemented itself as a powerful regulator globally - its pronouncements, investigations and even technical papers cause everyone to sit up to attention. This is not a good thing.

In a classic tale of cause and effect, the ripple effects of the CMA's previous approach have been widely felt and companies have responded. To avoid being trapped in lengthy investigations that as we saw above drain resources, and create high levels of uncertainty, companies are finding alternative methods.

Startup	Hired by	Details
Windsurf	**Google**	Google hired Windsurf's then-CEO Varun Mohan, co-founder Douglas Chen and a small group of employees to work as part of DeepMind, and is licensing the company's tech.
Scale AI	**Meta**	Meta reportedly acquired a 49% stake in Scale AI, and licensed the company's tech. Scale AI co-founder and then-CEO Alexandr Wang joined Meta to lead its AI "superintelligence" division.
Adept	**Amazon**	Amazon hired co-founder and then-CEO David Luan and certain team members, and licensed the company's tech.
Character AI	**Google**	Founders (and former Google execs) Noam Shazeer and Daniel De Freitas and 30 employees joined Google's Gemini AI team. Google also licensed Character AI's tech.

For investors, employees of the startups in question and the ecosystem as a whole these competition 'work-arounds', which avoid long investigation periods and provide a clearer route to progress, are less than optimal. For investors they threaten their ability to see returns on their investment and for the startup employees left behind that is essentially the end of the road on that particular journey.

It is understood that to combat this, these negotiations have included investors and employees receiving 'compensation' via the licensing agreement. Nevertheless, the rise of acqui-hires has the potential to erode the trust between founders and investors that lies at the heart of what is a small tech ecosystem.

By foregoing the traditional M&A route which as discussed above, has been slow and uncertain for both the startups looking to be acquired (a legitimate end point) and those acquiring, competition and anti-trust regulators have driven perverse outcomes for the ecosystem more broadly. This happens not because of good or bad actors but simply because it can be the most effective vehicle - "this structure is simply a vehicle to achieve everybody's objectives and facilitate the transaction."[5]

These moves are not beyond the reach of regulatory authorities as per the CMA's investigation of Microsoft/Inflection or the FTC's scrutiny of Amazon/Adept AI but what they do suggest is that there is an evolution of what 'M&A' looks like in the age of AI and just as companies are adapting to ensure they can continue to move at speed - so too must our regulators.

[5] https://medium.com/@villispeaks/the-blitzhire-acquisition-e39361ed00bb

What Next?

The shift, nudged along by the Government, to centre growth in all its work has not gone unnoticed.

The new 4Ps framework - pace, predictability, proportionality, and process - recognises that ***how*** the CMA works as well as ***what*** it does matters to investment, innovation and ultimately on delivering the national mission of economic growth. Chief Executive, Sarah Cardell made this abundantly clear when she gave evidence recently to the Business and Trade Select Committee:[6]

> A lot of it, though, also comes down to the choices that we make about the work that we choose to do and, importantly, how we go about that work.

Already we have seen the fruits of a 'go to you approach' allowing for a wider range of voices to participate early in conversations on competition by, as it says on the tin, doing proper outreach to startups and investors. The Growth and Investment Council, meanwhile, offers a platform for organisations like Startup Coalition to provide early input, ensuring a more comprehensive viewpoint in discussions that often become unnecessarily polarised around innovation versus potential harm.

This signal has cut through and we have had dozens of positive conversations with founders and investors alike who feel that they are, finally, being heard.

In many ways this is the easy part. We would urge the CMA to harness the current momentum for change to evolve how AI partnerships are viewed by the regulator, specifically with the goal of creating very separate lines of inquiry and ways of working.

So how can the CMA move to a more predictable and proportionate footing?

[6] https://committees.parliament.uk/oralevidence/16344/pdf/

Recommendations

In theory the UK's competition regime is unique in that merger notification is voluntary; however, the CMA does encourage businesses to notify where there may be competition concerns. Its website states that notifying the CMA early can "give you more legal certainty" and "save you time and resource".[7]

However, notifications are not simple and voluntary briefing papers which are time consuming and costly do not prevent the CMA from initiating formal reviews even after the consideration of informal submissions. The numbers speak for themselves: since Brexit (2020 - 2024) the CMA opened formal investigations in more than 200 merger cases and reviewed over 3,000 transactions.

The reality, therefore, is more akin to a quasi-mandatory regime, particularly given that the CMA retains a number of powers that undermine the light touch regime presented:

1. **Interim Enforcement Orders:** If the CMA decides to investigate a completed deal, it can impose an IEO to prevent further integration, often with immediate effect. Breaching an IEO can result in severe fines (up to 5% of global turnover).
2. **The Look-back period:** The CMA can launch a review up to four months after the deal closes or after the relevant material facts about the transaction are made public (whichever is later). This is powered by a dedicated team that actively monitors media, industry sources, and third-party complaints to identify and investigate unnotified deals that they feel may warrant closer inspection.
3. **Unwind Powers:** If, after investigation, the CMA finds the merger substantially lessens competition (SLC), it has the power to prohibit the merger and order the parties to unwind the transaction This is the highest risk and cost for merging parties.

Taking this in holistically alongside the CMA's reliance on a flexible "share of supply" test and the expansive definition of "material influence" the voluntary regime which on the face of it seems 'startup friendly' sits on top a layer cake of complexity, uncertainty and risk - which investors are all too painfully aware of.

The CMA, with DBT where necessary to amend the legislative framework that guide the CMA, therefore should:

1. Clarify Material Influence

A fundamental shift in regulatory philosophy is imperative. The CMA should pivot towards preventing clear abuses rather than pre-empting them. This moves away from a "if the only tool you have is a hammer, everything looks like a nail" approach that presumes harm based on structural characteristics (like partnerships) towards one that demands concrete, empirical evidence of consumer detriment or anti-competitive effects that are set out up-front and explicitly by the CMA.

---

[7] https://www.gov.uk/guidance/mergers-how-to-notify-the-cma-of-a-merger#:~:text=Merger%20notification%20in%20the%20UK,It%20can:

This allows market participants to innovate and experiment within defined boundaries, while the regulator can adapt its understanding and intervention strategies as the market matures and new competitive dynamics emerge.

For example, recent examination of contractual arrangements in partnership deals which aims to assess whether “commercial freedom” is restricted stretches the CMA’s jurisdiction on assessing material influence. In such a complex and deep value chain, where to win the big prizes access to scarce resources are indispensable, such blunt analysis does not work.

Instead we recommend that the CMA should build on its work to date in this space by offering greater clarity around what material influence is. Helpfully, the CMA has already confirmed that:

- Shareholdings with less than 25% of voting rights are ‘unlikely’ to confer material influence in the absence of other factors; and,
- Only in certain limited circumstances would a holding of < 15% be considered to confer material influence - and then only if there were "*significant [our emphasis]* other factors”.

However, putting up some clearer guardrails as to what *significant* other factors could mean would be helpful, for example:

- **Financial Dependency:** clarifying the threshold for when a startup becomes critically reliant on a single partner for funding or compute (e.g., a specific percentage of total costs).
- **Exclusivity/Foreclosure:** defining when exclusive data or distribution rights are so extensive that they effectively give the incumbent control over the startup's market policy.

This would create further certainty and clarity and help secure faster decisions.

2. The Need for Speed

“In four of the five AI partnership cases to date, the businesses involved were subject to investigations ranging from two to fifteen months before the CMA determined it had no jurisdiction to review.”[8] This can’t be good enough and we are glad the CMA agrees and has taken steps to inject pace into their work.

This protracted process, even when ultimately concluding in no jurisdiction, can have several detrimental effects:

- **Chilling Effect on Investment and Innovation:** For early-stage AI startups, lengthy investigations create immense uncertainty and consume precious resources (time, legal fees, management attention) that should be directed towards development and growth. Potential investors may become hesitant to fund collaborations if they anticipate a prolonged and uncertain regulatory review, thus slowing the flow of capital into the UK's burgeoning AI sector.
- **Reduced Competitiveness:** While larger tech companies might be able to absorb the costs and delays of such inquiries, smaller, innovative startups are disproportionately impacted. This can hinder their ability to form crucial partnerships, scale rapidly, and compete effectively, potentially placing the UK at a disadvantage in attracting and retaining cutting-edge AI talent and businesses.

[8] https://www.lexology.com/library/detail.aspx?g=d503f1d2-f3b3-4587-a064-dd3cafc6753b

- **Perception of Regulatory Overreach:** When investigations conclude without finding jurisdiction, it can lead to a perception that the regulatory tools are being applied too broadly or without sufficient understanding of the market's nuances, rather than focusing on genuine competitive harms.

The introduction of the Digital Markets Competition and Consumers Act (DMCCA) in May 2024, with its new statutory 'duty of expedition', is a welcome and necessary step. This duty legally obliges the CMA to "take action as soon as reasonably practicable" when exercising its competition powers. This signifies a governmental acknowledgment of the need for greater agility and efficiency in regulatory processes, particularly in dynamic digital markets.

However, there is a delicate balance to be struck about acting swiftly vs getting the right decision. The CMA - like other jurisdictions in Europe - should therefore give access to case files during investigations to prevent information asymmetries. And, bed in the ‘‘wait and see approach’ that is being rolled out.

In essence, the challenge for the CMA is to evolve its regulatory toolkit and mindset to match the pace and complexity of AI, ensuring that its interventions are not just timely but also precisely targeted, supporting the UK's ambition to be a global leader in AI innovation while safeguarding competition.

3) Narrow Jurisdiction

The CMA's ‘share of supply’ test has been exercised with wide discretion and questionable creativity in recent years. While the share of supply test may have utility in physical contexts such as discrete geographic boundaries such as cinemas or retail, its application to the digital sphere has raised concerns. For startups these broadly relate back to questions of market definition.

To calculate a ‘share of supply,’ the CMA must first define the "goods or services of a particular description" being supplied. This "description" can be broad, and the CMA has considerable discretion in how it defines this. For instance, it can define the "supply" based on value, cost, quantity, capacity, number of employees, or any other relevant criteria.

This flexibility allows the CMA to assert jurisdiction even in cases where a strict economic market definition might suggest no overlap or a very small market share, especially in dynamic sectors like tech and AI where traditional metrics might not fully capture competitive dynamics.

While this throws up all sorts of issues for businesses of all sizes it is particularly trying for startups who - at the very early stages at least tend to have one or both of the following characteristics.

Firstly, **Projecting a large Total Addressable Market (TAM)**, this serves as a crucial signal to potential investors, indicating significant growth potential and a pathway to substantial returns. Investors, especially venture capitalists, are fundamentally seeking exponential growth and disruption, and a large TAM directly aligns with this objective by demonstrating that the company isn't aiming at a niche market with limited upside.

To do this an early stage startup may purposefully seek to broaden how they define their market. Instead of focusing on a very narrow current market, they will define their market more broadly to include adjacent opportunities or substitutable solutions. For instance, a startup offering a new invoicing software might define its TAM as the entire "small business management software" market, rather than just "invoicing." While this makes good business sense in terms of seeking investment opportunities, it may

put them in the line of CMA fire. Startups who are looking to build should not need to have one-eye on how their marketing decisions to drum up investment may impact their ability to actually get to market and compete.

Secondly, **early stage startups pivot regularly**. Constant learning and adaptation is a classic startup hallmark and therefore being defined by external actors is laced with risk. Hugging face, for example, pivoted in dramatic fashion from an AI chatbot for teens to a leading open-source AI platform. Had the CMA decided to define its market in its earlier phase it would have an entirely different outlook.

Creating clarity in these three areas can draw a line under what has been a tumultuous period for the ecosystem and ensure the CMA can refocus its efforts and energies on areas that our broader startup community care deeply about: procurement, protectionism, competition and competitiveness.

STARTUP
C✳ALITION