

SHOTS FIRED: Microsoft CEO says Amazon and Google are rigging the system

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- **Microsoft CEO Satya Nadella had harsh words for Amazon and Google in an interview with CNBC.**
 - **He said the two companies are "fantastic at being able to rig transactions" and that companies that sign up for their cloud services are essentially "subsidizing their own tax increase."**
 - **Microsoft's Azure cloud competes with Amazon AWS and Google Cloud.**
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Microsoft CEO Satya Nadella on Monday harshly criticized tech rivals Google and Amazon in an interview, saying the two companies are "fantastic at being able to rig transactions" — and took a jab at the way internet advertisements are priced.

Microsoft is in a fierce battle with Amazon and Google for cloud-computing supremacy. Big companies, including retailers, are deciding which of these giants they are going to choose to host their applications in the cloud, which amounts to paying millions of dollars for computing time.

The [CNBC reporter](#) asked Nadella about how some companies deal with conflicts of interest when Amazon competes with them, for instance, retailers using Amazon's cloud, or grocery stores now that Amazon owns Whole Foods.

Nadella's response was unsparing — not just to Amazon, which was the subject of the question, but he went out of his way to call out Google, too.

Here's the exchange [emphasis added]:

CNBC: Now, I'm reading between the lines here. I hear stories about retailers coming to Microsoft because, hey, Amazon's all in grocery now, with Whole Foods. Retailers are looking over their shoulder, wondering, 'Amazon's got a good platform, but at the same time, are they going to come at the core of my business model?'

Nadella: Yeah, it's not even just Amazon, by the way. You've got to remember, **Amazon and Google both are fantastic at being able to rig transactions.** It's not that, you know, Google is somehow more friendly to retailers.

They have a nice two-sided market that they can subsidize one to advantage [the other] and also, by the way, the advertising business is just so funky, which is sort of second priced auction. I've never seen business models where [when] there's more demand, there are higher prices.

So I feel like any customer who is essentially subsidizing their own tax increase should think through exactly how that's going to work out in the long run. So that's where I feel like long-run business model trust is going to be so important.

Basically, Nadella was saying that Amazon's AWS product isn't trustworthy for many companies because no one can predict what industry it's going to move into next, with groceries as the top example after it bought Whole Foods last year. In other words, it could suddenly up and become a become a serious competitor to its cloud customer.

But he's not giving Google a pass, either. He's pointing out that a company that might be tempted to spend millions on Google Cloud needs to keep in mind that its business model gives it two ways to dig into the pockets of its customers. They may have to pay to reach customers through Google ads, even as they are paying Google to keep its website or app running as well, if it were a Google Cloud customer.

He then suggested that anyone paying Google Cloud was "subsidizing their own tax increase" then. If demand in its core market increases, so too will the prices of the ads it has to pay.

Nadella is a very careful speaker, and he rarely calls out his competitors by name. So this suggests a new attack vector for Microsoft Azure as it competes for big cloud-computing contracts.

You can read CNBC's entire interview with Satya Nadella [here](#).