

Online Intermediations Platforms Market Inquiry



iesad

INTERACTIVE ENTERTAINMENT SOUTH AFRICA



competition commission
south africa

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Overview



Introduction



Overview of SA Game Industry



Market Features



Competition
Considerations

Introduction

- ▶ IESA Founded in 2012 as NPC to assist in research, development and lobbying for the SA Video Games Industry
- ▶ Who we are?
 - ▶ Nicholas Hall
 - ▶ CEO: IESA; CFO: Renderheads, Attorney of the High Court of South Africa
 - ▶ Dr Pieter Koornhof
 - ▶ Researcher: IESA, COO: 24 Bit Games, Attorney of the High Court of South Africa



Overview of SA Games Industry

- ↓ Video game industry in SA is roughly 25 years old
 - ← Compared to rest of the world, relatively immature
 - ← Need for support and understanding
- ↓ Current state
 - ← Approximately 60 studios active, mostly micro/hobbyist enterprises
 - ↓ Approximately 250 full time employees*
 - ← Predominantly PC and Console development, very active services sector across all platforms
 - ← Systemic issues prevent major growth and poses significant barriers for HDP's
 - ← Little to no income from local consumer market (>99% export)
 - ← Estimated Annual Revenue: R300m (mostly concentrated over 6 studios)
 - ↓ Signs that this is growing (but also concentrating in particular studios)

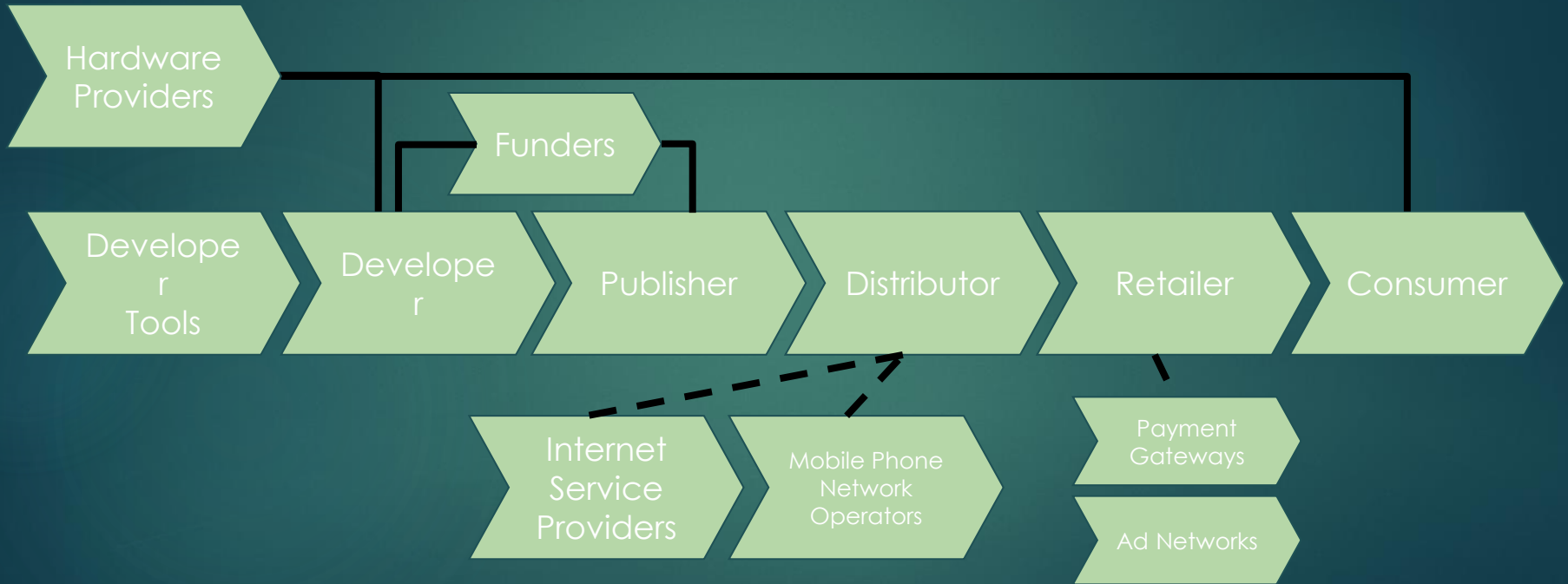
Market Features

- ↓ As a general rule, games in and of themselves don't necessarily compete with each other across (or within) genres, but platforms/consoles do
 - ↪ Platform exclusivity (form of exclusive distribution)
- ↓ Market as a whole:
 - ↪ High rate of innovation (disruption of new technology and console generations)
 - ↓ Console wars case study from UK Competition Commission
 - ↪ Hit-driven industry (similar to movies and music)
- ↓ Impact of console 'generations' are disruptive, but may in itself be disrupted by Games as a Service (GaaS)
- ↓ Global market tends to be 'dominated' by a few large players
 - ↪ Ubisoft, EA, Blizzard Activision, King, Rovio, Zynga, Tencent
- ↓ Of late, relatively high rate of mergers and acquisitions

Market Features

- ↴ Need to distinguish between
 - ↵ Digital Distribution Platforms
 - ↵ Publishers
 - ↵ Console Manufacturers
 - ↵ Developers
- ↴ Monetization differs depending on platform / type of game
 - ↵ F2P is most prevalent on mobile, but existent elsewhere
 - ↵ Premium still very prevalent in Console and PC
 - ↵ Premium more “micro-enterprise” friendly
 - ↵ Premium often dominated by bundle and discounted sales cycles
 - ↵ Discoverability and User Acquisition are critical to monetization regardless of model followed, but how that is done varies between the monetization model/style of game.
 - ↵ Nature of virtual products and digital distribution means you can charge less over time but still retain profit margin

Example Value Chain for Game Development



Competition Considerations

- ↴ **How will the shift by Huawei and Samsung to their own OS and app stores impact on the share of market moving forward in South Africa?**
 - ↵ Potential barrier to entry (building for new platform adds additional costs)
 - ↵ But also opportunity for first mover or service industry (porting)
 - ↵ There may be incentives provided by new platforms to join, which will be beneficial
- ↴ **How important are ads and features for gaining visibility for an app, and can small apps get visibility through ads or are they outspent by larger app developers?**
 - ↵ It depends on the user acquisition strategy, varies from platform to platform (App stores may punt games that are similar to currently successful games despite advertising spend)
 - ↓ Major storefronts both do themes, feature and profiles (will have beneficial impact)
 - ↓ Promotions and sales may however be run at expense of developer (i.e. less revenue)
 - ↵ In practice very little spend on games (with the exception of F2P mobile and AAA)
 - ↓ Would also be impossible for other types to compete against this type of marketing spend and strategy

Competition Considerations

- ↓ **Do any South African apps compete with the app store ecosystem own apps? If so, what impact does any self-preferencing of app store apps have on South African app developers? If not, does this conduct impact on South African consumers?**
 - ↪ SA has attempted to build own versions of app stores in the past, and still some efforts to do so
 - ↪ Largely these efforts have ended in failure
 - ↪ As a rule, regional storefronts do not work unless there are external factors
 - ↪ Self-preferencing not a issue on major storefronts for games because most platforms do not build their own games
 - ↓ Exception is specialised storefronts such as Epic / EA Play / Ubisoft Connect / Amazon Studios
 - ↪ Consumer impact is marginal (some need for multi-homing, but this is capable and expanding)
- ↓ **Does the commission charged by app stores discourage a class of paid app developers in South Africa at a) 30% and b) 15%?**
 - ↪ No, Dev Kits, Licence Models and Application Fees have far more impact on determining where a potential developer would host their game
- ↓ **Would lower commission fees result in lower consumer prices for apps or just a greater share of revenue for app developers?**
 - ↪ Not necessarily, may just lead to increased revenue for developer, no guarantee that this will be passed on
 - ↪ Over time, price of games tend to lower naturally

Competition Considerations

- ↳ **Should app stores be doing more to promote the participation of South African and African app developers on global app stores, especially HDP app developers, and if so, how?**
 - ↳ Certain app stores already do highlight black/african games/studios
 - ↓ Anecdotal evidence of increased interest in Africa (not only as consumer market, but to develop games)
 - ↳ Problem is that those studios are not HDPs or even from SA
 - ↳ Systemic issues are hampering development more than app store conduct
 - ↓ Need for proper support/understanding of industry from government and local investors

Competition Considerations

- ↴ **Evaluate any other barriers to entry into online commerce for SMEs and HDP owned firms, including but not limited to marketing costs, technological and product challenges**
 - ↵ In SA context, the major barriers to entry are regulatory barriers
 - ↓ FPB compliance measures
 - ↓ Exchange Control Regulations
 - ↓ Difficulty to bring external talent into South Africa to enable skills/knowledge transfer
 - ↵ Government bound by provisions of Competition Act
 - ↓ Currently frustrating ability of SA developers to compete local market to grow

THANK YOU

↳ Questions?

