COMPETITION COMMISSION OF SOUTH AFRICA

In the matter of

ONLINE INTERMEDIATION PLATFORMS MARKET INQUIRY PUBLIC INQUIRY (OIPMI)

held at

DTI Building
Sunnyside and virtually via MS TEAMS

on

2 November 2021

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PANEL: James Hodge – Chairperson
And Doris Tshepe

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TECHNICAL TEAM

Hariprasad Govinda	CCSA Internal Team
Raksha Darji	CCSA Internal Team
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COMPANY: DEVSON

Gauteng Transcribers
Recording & Transcriptions

PROCEEDINGS ON 02 NOVEMBER 2021

MS TSHEPE: Thank you.   I think we can have our next person. Good afternoon, Mr Dawson.

MR DAWSON: How are you?

MS TSHEPE: I am very well, thank you.

MR DAWSON: That is good.

MS TSHEPE: Thank you so much for your time. I am going to hand over. Would you mind putting on your screen?

MR DAWSON: Just give me a moment.

MS TSHEPE: Thank you. In the meantime – there we go. Thank you.   I think I will hand over to Mr Govinda to ask some questions. Hari?

MR GOVINDA: Thank you, Mr Dawson, afternoon.

MR DAWSON: Howzit.

MR GOVINDA: Thanks for participating in the inquiry.

MR DAWSON: No problem.

MR GOVINDA: Just to kickstart, could you please briefly describe your business and the apps that you have developed?

MR DAWSON: So I am a director of a company called Devson Software. We are a company of 10 employees. We manage quite a few systems for our various clients and we have developed a few of our own products, some of them which include mobile apps which we use for both. They are available on Google Play and on the app store on IOS.

I believe the one that is brought to the attention is an app called LabTrak Barcode Scanner which is an app that doctors use to help manage their patients that are assigned to them with tests and results.

MR GOVINDA: Thank you.   How did you develop the LabTrak Scanner app for public health sector and did you approach the health sector directly to develop your app?

MR DAWSON: So I developed it for a friend when I was at university.   So he was in the public health sector at the time. He suggested to me that there was an opportunity for an app, well more that he needed assistance and he thought an app would be a good idea.   So I made it for him when I was at university a few years ago and gave it to him to use and he said it worked really well and that I should make it available to other doctors to use.

MR GOVINDA: I maybe should have asked you before. Could you please explain what the app is for and what does it do?

MR DAWSON: Oh, okay.   So it helps doctors retrieve blood test results from the public health system for their patients that are assigned to them.   Using the built in camera on your cell phone you can scan a barcode that belongs to a patient and it will retrieve their blood test results.

MR GOVINDA: Sure, thank you.

MR DAWSON: That is essentially the fundamentals of it.

There are lots of other added features, but that is the basics of it.

MR GOVINDA: Sure, thank you. We understand that you distribute your apps on Play Store and App Store.

MR DAWSON: Yes.

MR GOVINDA: Could you please explain the dependency of the app developers such as you on Play Store and Apple's App Store?

MR DAWSON: So I would be fully dependent on the two app stores as I rely on native features for the app to function. So it has to be a native app and to distribute the app I mean I could either manage that myself where I send the installer files to different people, whereas I mean it is much easier just to upload your application up onto the Play Store and allow the Play Store to manage the security side of it and the payment side, the subscription side of it and the automatic updates as well.

They also manage the signature. So when you develop it and publish the app you sign it. They manage the signature keys to make sure that your app is from you and it is not a copy from a different developer impersonating you. So I am fully reliant on the app stores because of the native features of the app that I have needed.

The alternatives would be to make a web app, but I did try that but it did not work because the barcode scanner

from a web browser based application it was not as quick and efficient as the native camera that you hook into using a native app.

MR GOVINDA: Okay. Sorry.

CHAIRPERSON: Sorry, Hari. Sorry. Warrick, can I just ask when you say native features, what do you mean and are they available only through the app store?

MR DAWSON: No, no, it is not from the app store. So when I say native features I mean of the handheld device itself of a phone. You get things called native APIs which are the features of a phone. For example, the camera, whether or not you have turned the phone sideways or forwards, Bluetooth, Wi-Fi, these are all native features of the phone.

     With a native app you get to hook into those features itself, whereas a web app you almost have a plug-in. So it is an extra dependency on these plug-ins to hook into the camera. So because I want to use the camera directly from the app it has to be natively installed and it cannot run through a web browser per se and because of this I have to publish native apps and those are distributed through the Google Store – Play Store if that makes sense.

CHAIRPERSON: Ja, that makes a lot of sense. Thank you.

MR GOVINDA: Thank you, Mr Dawson. Recently if you have heard already that the likes of Samsung and Huawei

also have developed their own app stores. Huawei has its

app gallery and Samsung has Galaxy Store.   Have you

considered distributing your apps through those platforms?

MR DAWSON: I have, yes. So with the Huawei app gallery

I found that a few new users that had the new Huawei that

do not have the native Google installed on their devices,

they actually cannot use LabTrak Barcode Scanner because

of the dependency on the payment system that I was using in

Google.

So a few doctors have asked or users, let us say,

have asked if there is a Huawei version available, but I just

have not – I have not seen the market to match the amount

of effort and time that I would have to put in to use that

system at this stage.

And also I just find that Google is just so much more

popular that everyone knows the Play Store when they – I

mean, that is the first thing you do when you buy a phone is

you go on the Play Store and you download all your

WhatsApp, Facebook, all those apps straight away.   So

everyone knows that. I mean, even people that are buying

Huawei only phones they are generally surprised when they

do not have the Play Store and then they try get it installed.

Then they will use the app gallery as a backup is what I find

in my experience.

So I have considered.   I have not looked at the

Samsung's store at all just because I developed it for the Google store just because that is what I was familiar with at the time.

MR GOVINDA: Sure.   While you are on that point, I just wanted to check with you your views on the Apple's app store.   They seem to suggest that they are a very small part of the smartphone market in South Africa.   What is your view on iPhone users in South Africa and how important are they to you?

MR DAWSON: I would say that half of my users are on the app store.   I would think it is almost 50/50, but that could – I could have a bit of a skew market because my users are generally higher income users.   They are doctors themselves.   They are all in the medical profession.   Most of them are medical officers or registrars.   So I would think that they can afford to buy iPhones and so maybe that is why users are 50/50 for me.

          But I do think that the majority of the market in South Africa is probably is Google and Apple would have quite a smaller share.   That would be my opinion.   I do not have the facts to back that up, but my user base it is about 50/50.

MR GOVINDA: Thanks for that. What has been the impact of commission fees of 30% for in-app purchases on your business and also consider there is a reduction of fee from

30 to 15% just before you comment on?

<u>MR DAWSON</u>:   So when I published the app and put the subscription on the app it was at the end of 2018 I did not have experience in managing payment systems myself. So I just decided okay, well 30% is a lot. I will try take the hit. But now as the user base has grown that 30% really started to put me off using the system and I started looking at work arounds, because I did feel 30% was too much to be giving Google for what they supplied.

So I looked at trying to develop a web app, like I was saying earlier, that had the plug-ins for the barcode scanner and I actually – but then I also had to develop my own payment system using – I was going to use a payment company called Peach Payments to manage the subscriptions, but then you also have to develop your database and your payment systems and manage the users, check that their payment methods are valid and not expired.

And so I did decide okay, this will be worth the extra 30%. I mean, you would still have to pay 2% on the credit card or whatever the relevant fee was that they used and just before I thought I was happy to publish that, Google and Apple both announced that they would be reducing to 15%. And then I thought well then that is actually okay.   15% seems sort of fair to me at the moment.

So I am only paying the 15% at the moment for

Apple and Google, which I – I do not know if it was just because they reduced it from 30% that maybe I thought well that seems a lot more fair than the 30%, but ja I would almost say I am comfortable paying the 15% to not have to worry about distribution and managing payments and users and payment methods, the order updates, the consoles that come with it to upload and publish your next release.

But the impact it had on me to get going was difficult I would say, because when you only have 30 users giving 30% away is a massive amount, ja. But ja, 15% I think is okay now.

MR GOVINDA: So you – sorry.

CHAIRPERSON: Sorry, Warrick. I just want to ask, I mean you have put an app into the public healthcare space.

MR DAWSON: Yes.

CHAIRPERSON: And that is obviously of use to your users. They find it convenient. And we often talk about, you know, tapping into private innovation to assist Government or healthcare services or even education.

MR DAWSON: Yes.

CHAIRPERSON: I mean, do you think these commission fees has discouraged further innovations either from yourself or people you know in this ecosystem?

MR DAWSON: So I am just thinking about that. So I have only – this is the only app that I have with the subscription

fee on it. It did not discourage me to do it initially, but I was also not aware that it was 30% till after I had developed the app and put the – then I decided I should make people pay for this app instead of just giving it away for free.

But I think yes actually. I think people would if they knew going in to develop an app, because it is a huge process, knowing that they would give 30% away from the get-go, I think they would look at alternative methods or just not doing it, as you say.

So looking – ja, maybe just not those sectors that you said. I just think in general that if you knew that you were going to put all this time and money into developing an application and then wanting to put a subscription fee on it and having to give away such a huge percentage. I mean, it is almost like giving 30% of your business away to Google from the get-go just to have access to their platforms.

So I think, yes, I think that could be quite off putting for other software companies to want to get into that space. When we are often approached by potential new clients looking at having payment or just payments in general in the app I always am very upfront about how if you want to use a native app you have to use these payment systems and you are going to give away 30 or now 15% of your income straight away and that does tend to put people off and they immediately start asking for what is the alternative. And that

is well, you build your own payment system using a web app and do not publish it to the Play Stores. Sorry, I do not know if that answers your question.

CHAIRPERSON: No, that does and I think it is partly in the context as I said of a public service app. I mean, do you think it also impacts on the potential pricing if you do go ahead?

MR DAWSON: Yes. So when I published the first time after the first six months I immediately put up my pricing because I was not aware of the commission that I was going to give. So I almost doubled the price of my subscription almost immediately. Before too many users had hooked onto the original price I pushed it up, because I just thought I was getting too little after the commission was given.

        So yes, it does affect pricing for sure from the app side, not from a developer side. Like if I was charging a client to build an app I would not put that into my own pricing, no, because I do not take that hit, ja.

MR GOVINDA: Thanks, Dawson. The fee reduction that you talked about from 30% to 15, I know it is half the price from what you used to pay, but you also mentioned that it is reasonably fair. But if there were options, alternative options of making payment, you mentioned Peach Payments or even a credit card to which you could make payment, would the commission fee be 15 or would it be reasonably

less than that?

<u>MR DAWSON</u>:   Oh, it would be much less. So to give an example, at Peach Payments the fee is 2.5% which is a huge difference. But again the cost of that, you have to manage a lot of the user payments and subscriptions. The actual taking the money from the accounts, you have to manage that yourself whereas now once a user subscribes they just press subscribe and you do not have to ever worry about that. You just have hooked that Google functionality or Apple functionality into your app.

But for me it would still be worth it I think. 15% versus 2.5, yes, I think it would be. If I do the – try to do the numbers quickly in my mind, given – and if I had the space to do it I think I would. It also depends on the size of the user base. I mean, the more users you have, the more you are giving away. So then that is when you start to wonder well if I focus on just developing my own payment system.

However, you cannot because Google do not allow it. So if you try to put in an alternative payment method they will just take your app off the app store. So that is actually not worth it at all, until they allow that, which I believe Apple are going to allow that soon. I might relook at it, but for now I feel like you just have to go with Google and use their payment system and pay their 15% because they force you to. It is in their terms and conditions, ja.

MR GOVINDA: Thanks for that.   Just to get your perspective on that, you mentioned Peach Payments 2.5% and if you were to manage rest of the activities such as processing the payments, security issues or refund for instance, if you were to manage all those activities that Google and Apple manage and the charge, the fee of 2.5%, would that still be going towards 15 or would it be substantially less than that adding all of that?

MR DAWSON: Well the fee – it would be the development time that would be the first I guess the opportunity cost that if I were to spend three or four months developing my own payment system – I say 2.5% that's Peach Payments. I think it is 2.5. It is around that, 2.5, 3%.

The rest of the stuff would not – of the functionality would not cost me anything afterwards. It would just be – and if I built my own payment system then I would not have to pay any fees, but that is a whole different ballgame. I could never do that the way that you have to store credit card details and manage the actual money. That I cannot do. So you just hook into their system.

What you need to manage yourself is when do you take the money from the users and allow them to subscribe and unsubscribe. So it is more of an opportunity cost which at the moment I feel is not worth the 15% to 2.5% because of the number of users I have. If I had a million users then I

would think well, then I am paying 15% of a million users, I could only pay 2% of that, that would be a much bigger saving.

So I guess it is just the balance of the time and effort it would take to manage my own payment system and use the Peach Payments for instance. But again I would not do that because Google will just take my app off the app store and then, ja, then I would be in big trouble, ja.

MR GOVINDA: No, sure. Thanks for that. But even the 15% reduction in the fee, it is applicable with the condition that as long as the sales are $1 million or less.

MR DAWSON: Yes.

MR GOVINDA: So if you were to breach that $1 million value you will again start – end up paying 30%… [intervenes]

MR DAWSON: 30%, yes.

MR GOVINDA: Almost back to double. Do you not think that it will disincentivise developers from growing?

MR DAWSON: It would, yes. So I have done the math to myself and I cannot see – I do not think that will ever be an issue to me with LabTrak Barcode Scanner because I have done the math of how many potential users there will be in the country. It is only applicable to South African doctors in the public health space. It is also only more junior doctors, interns, conserve doctors that are the majority of the users.

So I have never actually considered that. It is one

of those where I would cross that bridge if it were to happen, because a $1 million a year is – I mean, it is a nice goal to have, but this app would not get to that. So ja, I do not really have an answer for that just because I have never considered it.

MR GOVINDA: Now that the fee has reduced from 30 to 15, has this resulted in more funds available for marketing and promotions or even to – even for your app to be more discoverable?

MR DAWSON: I guess I do not really spend very much money on marketing and advertising. What it did allow me to do was I guess it allowed me to leave my previous job and focus solely on this app now because the 15% from both app stores was enough to make me feel comfortable that I would have the monthly income to start focussing on my own company and other products and other clients. It freed up a lot, but not a huge amount.

MR GOVINDA: And keeping the public health sector in mind, do you think the commission fee charged reduce the ability of developers to enter into this space, developing apps in the public health sector?

MR DAWSON: I think – I do not think it is the commission that is the barrier for new developers. I think there is a bit of a gap of understanding between software developers and the end user in the public health space I think.

I was lucky enough that I had this friend at varsity. We were roommates so we knew each other really well and he could see what I could do. I had listened to him a lot. I think there is more of a communication, that is why there is not enough apps in the public health space. I do not think it is the payment commission at all, ja.

MR GOVINDA: Sure. Are there any restrictions from app stores on how you price on other platforms or your own website? You have mentioned that you do not have a web... [intervenes]

MR DAWSON: Yes, there is no web app, yes.

MR GOVINDA: Ja, but in general I mean are there any restrictions from app stores on how you price on each of their platforms or do they disincentivise differential pricing in any way?

MR DAWSON: So I am under the impression that if you – that you have to have the same pricing across all your platforms. I could be wrong there, but I also believe that if you have the app and you have a web app, the pricing has to be the same. So you cannot have a – you cannot make it cheaper on a web platform than on the native – the app store pricing. I think it has to be the same, but I cannot say that for sure because I do not have the web platform.

And then between the app store and the Play Store, I do not know. I just make the pricing the same because I do

not want the users to talk to each other and say why is it cheaper on the Play Store. So I do not know. I do not have the answer to that.

MR GOVINDA: You mean to suggest maybe it is – the differential pricing may not be available as per your contract or you are just not sure of what it could or you are just charging the same price because you do not want to communicate a different price to the consumers?

MR DAWSON: Yes, I do it myself so that all the end users pay the same pricing across the two platforms that I use. But I do think within the terms themselves you cannot make it cheaper on a different platform, but I cannot say for sure.

MR GOVINDA: Thank you. In other jurisdictions such as South Korea and US there is a move towards mandating Google and Apple to allow for alternative payment mechanisms for in-app purchases. What is your take on that if it happens in South Africa?

MR DAWSON: I would really go for that then. If we are allowed to have – I mean, I have been following this. I know it started with Fortnite that began this you cannot make us only use the Play Store and they just bypassed it completely and this began the whole call for alternative payments or to drop the fee.

        I would be for it. I think I would very much like the opportunity to have my own payment system in place,

because I started to develop it for the web app but I am too
reliant on the native functionality of an app, so I would very
much like to see alternative payments be allowed on these
platforms.

MR GOVINDA: Ja and could you please comment on the
ranking, rating and reviewing process by app stores?

MR DAWSON: So the ranking I am not too sure about it.
This is the only app that I have ever had ranked. I believe it
is – Google do the ranking. I think mine features in the top
10 of productivity apps, so it is a very specific category and I
think Google put it there based on their own calculations. I
have never done anything to try get the store – I mean, the
app ranking within the store. What was the other part you
asked? The reviews?

MR GOVINDA: I meant to suggest are these processes
transparent and fair?

MR DAWSON: I have no idea. So I do not know if they are
trans – ja, I did not know it was ranking in the top 10 until I
was contacted by you guys to say that you are ranking in
one of these top 10 categories and then this process started.
So I do not know too much about how they get this data, so I
would not say it is transparent, ja.

MR GOVINDA: Right and what are the challenges faced by
South African developers in competing against large global
developers, especially in relation to discoverability issue

faced by the local app developers?

MR DAWSON: So, I do not know. I would have to think about that. I have not really experienced myself any challenges. I think I was very lucky with the word of mouth amongst the community of users. So I never had to focus on discoverability of the apps – of LabTrak Barcode Scanner.

However, I think there are just so many apps out there from developers out there that the market is almost flooded that it is a big challenge to get your app to be the next Facebook, WhatsApp. I think it is very, very difficult without the correct knowledge of the tools to advertise it yourself. I am not an expert on advertising just because I never had to focus on it.

MR GOVINDA: Thanks, Mr Dawson. Over to you.

MS TSHEPE: Thank you so much, Mr Dawson, for your time. We really appreciate it.

MR DAWSON: No problem.

MS TSHEPE: Thank you. James, I am going to hand over to you. I think this is the end of our session.

CHAIRPERSON: Ja, I think this is the end of the first day, so tomorrow morning I think we start with SAVCA, South African Venture Capital Association, then the Ecommerce Forum of South Africa, that is the morning session. In the afternoon we have Naspers and then in the evening session we have Google Play coming to also talk about Google as

well and what they – presumably what they do within the country and within the continent. So that is for tomorrow's session. Thanks. Thanks for all the participants today and we will see the public tomorrow.

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