



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

PANEL: *James Hodge – Chairperson
And Doris Tshepe*

TECHNICAL TEAM

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COMPANY: INTERACTIVE ENTERTAINMENT SOUTH AFRICA



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INQUIRY RESUMES

MS TSHEPE: Once more apologies for the delay. I think we are trying to sort out our technical issues, but most importantly I would like to welcome Interactive Entertainment South Africa, I think represented here by Mr Pieter Koornhof and Mr Nick Hall. I hope I have pronounced your name properly.

I think from my understanding from the technical team you are going to start with the presentation and
10 thereafter I will, we will have some questions for you. Over to you, Mr Hall.

MR KOORNHOF: This is actually Doctor Koornhof, Mr Hall is logging in.

MS TSHEPE: I think you are on mute.

MR KOORNHOF: Can anyone, can people hear me now?

MR HALL: I can hear you, Pieter.

MS TSHEPE: Do you need to un-mute? You need to ... [intervenes]

MR KOORNHOF: I can, people can hear me apparently.

20 MS TSHEPE: We still cannot hear you.

MR KOORNHOF: Hello?

CHAIRPERSON: Mr Hall?

MR HALL: He is switched off on Teams.

MR KOORNHOF: Hello? Hello? Hello? Nick, can you talk? Can you hear them? Can they hear you?

MR HALL: I can hear people, I can hear you, I am not sure if they can hear us though.

CHAIRPERSON: We can hear you now.

MR HALL: Okay, fantastic.

MR KOORNHOF: Can you hear me?

MS TSHEPE: Yes.

CHAIRPERSON: Yes, we can.

MR KOORNHOF: Okay.

MS TSHEPE: Welcome. Please go ahead.

10 MR KOORNHOF: Thank you. Nick, do you want me to share the presentation from my side?

MR HALL: If you could, please.

MR KOORNHOF: Alright, there we go, so just bear with me for a second while we do this. Nick, do you want to start us off?

MR HALL: Sure. So first of all, thank you for inviting us to make the submission. My name is... Pieter is just going to move on to the next slide. So, I am saying we have been asked to come and share some information, this is very
20 roughly what we are going to do. We will give a very brief introduction to ourselves, we will give an overview of the South African Games Industry as it stands and then we will talk to some of the market features and the competition considerations, specifically answering some of the questions that came up in the documentation that is relevant and that

we think we are able to answer.

So, I mean, I know we, there is limited time, so Pieter, if you could just move ahead and we can start with that.

MR KOORNHOF: Yes.

MR HALL: So, my name is Nicholas Hall, I am the CEO of IESA, we are an industry body for game development companies in South Africa. We represent around 60 game development firms and their interests through, directly
10 through the body itself and through our online community mainly in South Africa.

We were formed in 2012 and we have a number of objectives, for one we do a lot of research on the side of the industry, we participate in lobbying action with governments on laws that deal with or have an impact on our industry and then we act as sort of a central mouthpiece for the industry when dealing both with internal and external stakeholders. I am also the CFO at RenderHeads South Africa, it is a game development company based in Cape Town. I am also an
20 attorney for the High Court of South Africa. Pieter, if you want to introduce yourself.

MR KOORNHOF: All right, so hi everyone, my name is Pieter Koornhof. I am, like Nick, also an attorney but you know, also a bit of a recovering academic, so one of the ways in which I kind of still scratch that itch is by engaging

as research and a policy analyst for Interactive Entertainment South Africa.

I am currently the Chief Operating Officer of 24 Bid Games, which are also in the game development studio we are operating up in Johannesburg. We are officially currently the largest video game studio in South Africa. I, for all my sins I am very, very glad to be here. I actually have a doctorate in digital platforms and competition law, so we are very thankful for the opportunity to be able to provide
10 some evidence at these hearings. So, Nick, over to you.

MR HALL: Ja, so let me look at the next slide then.

MR KOORNHOF: Yes.

MR HALL: You are driving, so ja. Okay, so I thought just before we start going into kind of sort of answering the questions, I know that not many people understand what the South African and gaming industry actually looks like, and so I think it is just useful to build up some context for yourselves when it comes to answering questions so you can understand where we are coming from and kind of the logic
20 in our answers.

So the video games industry in South Africa is roughly 25 years old, the first kind of commercial game that was released was in 1996 by the name of Toxic Bunny by a studio called Celestial Entertainment and since then we have seen a lot more people kind of participating in this space,

especially over the past 10 years there has been kind of a rapid up tick of studios forming and people participating, versus being primarily driven by the rise of digital distribution platforms, compared to the rest of the world though we are relatively immature.

The size of our studios are very small. We do not have any major studios employing what we would called AAA studios that are employing thousands of people. As Doctor Koornhof said, the largest studio in South Africa is
10 24 Bid Games and they are just shy over on employing 40 people.

The industry needs a lot of support and understanding. We are often considered a subset of film and that leads to some very weird policy considerations, but if you want to look at kind of where we are at the moment, as I said there are about 60 studios active, the majority of these are micro enterprises, so by that I mean they are compromised of primarily their founders, so one or two people, and I would consider them to be hobbyist
20 entertainments, they are not actually income generating ventures at the moment.

They tend to make small knish games and it is unlikely that many of them will survive beyond three years. We have seen, we have a fairly rapid turn of these enterprises kind of joining into the industry and having a go

and failing, leaving out and then there is a batch of new people kind of coming in.

There are about 250 fulltime positions in the game development sector itself, so this is people actively making games. Distinct from Sub-Saharan Africa, South Africa is fairly unique that most of our developers and our studios are working primarily on PC and Console, so this is, we are making games for personal computers and for your major Console, X Box, PlayStation and Nintendo Switch, and at
10 least half of the studios that are active do some form of services work, by that we mean that they are not actually making their own intellectual property, their own games. They are outsourced work for major development studios overseas.

There are a number of systemic issues present in the industry itself and around the regulatory framework that we see in South Africa that is preventing major growth, compare to things like Brazil or India for example who has as old, and sometimes the younger game development sectors
20 than ourselves, those industries have seen a massive update, a massive growth which has not been matched by South Africa and something else that is relevant is that the industry is still majority white and male owned.

There has been a significant bunch of research done into why that is the case and certain issues have been

identified that are preventing people from participating that we will go and explore later on in this presentation, because it does speak to some of the questions that you have asked.

What is also really important is that while the South African consumer market, I think the last sort of stats that I saw peg the consumer game, the video game industry at around R300 million. Very little of that flows to local developers.

If you look at where our developers who are making
10 their own intellectual property are finding market, it tends to be international. Stats that we have from 2016, which is still mostly true, had something of the figure of about 99% of our incomes derived outside of the country.

Getting into the local consumer market has proven difficult, but again it is a systemic issue that we face and also frankly the consumer market, the number sounds large, but given the type of games that we make or that we are able to make it is not that unsurprising.

The estimated annual revenue of the industry, so of
20 those 60 studios it is around R300 million, most of that money though or most of that income can actually be concentrated over perhaps six or seven studios in total. Like I said, the majority of them are micro or [indistinct – 00:09:51] enterprises, they are not really income owners at the moment.

We have seen sustained growth over the past kind of six years where we have tracked sort of video game growth, so it is growing, but again it seems to be concentrated in only a handful of studios. There has not really been a massive unlocking of the potential value of the industry to new entrants, and again this speaks to certain issues that we would like to speak to. Pieter, are you going to take this one?

MR KOORNHOF: Yes, so just to speak to general aspects
10 of the market, Nick and I will also later on speak to certain subsets within the market, which I think is important for people to be mindful of and also how these operate and monetise. When we think about you know, video games and competition in relation to video games as a general rule I think people, we should be mindful of the fact that games in and of themselves do not necessarily compete with each other.

So if I as a consumer want to buy a particular type of video game, that does not necessarily stop me from
20 buying another game. There might be a budgetary constraint for individual consumers, but people who develop video games do not necessarily compete on a direct basis with other studios also developing video games, because there is an opportunity there for, you know as potentially people playing more than one game at any given point in time.

There are some exceptions to this.

So if, whereas developers do not necessarily compete with their video games, platforms and Console will necessarily compete, so Nintendo is going to try and get you to buy their Switch Console, as, X Box is going to try and you get, so Microsoft is going to try and get you their X Box Console and one of the ways in which they can do that is by forming exclusive distribution agreements or getting exclusive licensing rights to certain video games to only be
10 on their system.

So there is not really competition between developers, but there can be some competition when it comes to titles on different Consoles, so again one needs to be mindful of the nature of the witnesses one looks at and the nature of the market that one looks at.

Looking at the market as a whole it is generally one that is characterised by a high rate of innovation. Every couple of years there is a disruptive event that happens when a new Console generation is launched, so new types of
20 Consoles are being made. Currently we are in a transitional phase where people are still playing PlayStation 4, but also buying PlayStation 5, the same thing with you know, your X Box 1, your X Box Series Console, these tend to kind of make, potentially have seismic shifts within the market, both in terms of consumer expenditure, but also market share.

A classic example of this actually comes from a case done by UK Competition Commission in the mid nineties looking at the Console was between Nintendo and Sega at the time where they found that Sega and the Mega Drive was the dominant player in the market and their conclusion was that they would be the dominant player in the market for the next calendar year.

Now that very, you know marketing report was rendered redundant within a space of a month, because two
10 weeks later the Sony PlayStation was released, which completely destroyed the market share of Sega and actually created, was so disruptive that it led them to ultimately leave the Console development industry within the space of three to four years and so they completely exited the market as a result of these types of seismic shifts.

There is also, it is also a head driven industry, so there is a lot of content being generated, there are a lot of choices potentially for consumers, but they tend to naturally gravitate towards the larger titles, the ones that are, you
20 know that are either critically or commentary successful. So in that instance it is very similar to the movie and the music industry.

One of the big disruptive elements that is currently happening, although we have not really been able to see the full extent thereof, is the onset of games as a [indistinct –

00:14:07]. So, the fact that we are seeing traditional companies that would bring out titles in, rather use games posts, so what you do is you pay a monthly fee to be given access to a variety of titles, very, very similar to what Netflix has done and we surmise that the disruptive effect that Netflix has had on the industry, on the television industry and the movie industry will likely also be seen in the context of games development.

If one looks globally at, you know at the scene, the
10 market tends to be dominated by a few large players, these are individuals that are, or rather companies that started off as video game developers that eventually moved into publication and now, they do a little bit of everything. They can talk a little bit more on that point, but we do see companies like UB Soft, Electronic Hearts, Blizzard, Activision, King, Rovio, all of them which operate in different subsets of the market, I should say, so companies like King, Rovio and [indistinct – 00:15:06] tend to operate in the mobiles, sective, whereas UB Soft, Electronic Hearts and
20 Blizzard Activision were more operating in the traditional space for personal computer and Console.

What we are also seeing of late is a very, very high rate of mergers and acquisitions where even seeing that anecdotally in, you know people being interested in purchasing certain South African studios, now that

necessarily can also potentially have effect down the line as it leads to more concentration within the market.

Nick, I think maybe you are best suited to talk a little bit about, you know, the different aspects of the market and the different of the Consoles.

MR HALL: So, what we are going to do kind of off this slide is I am going to very briefly kind of do the value chain of, or a typical value chain of the game development industry and kind of what that looks like, but there are a couple of
10 pointers that I think we just, for some terms that we need to clarify and sort of a better understanding of how game developers actually make money.

So first of all, we need to understand that there are four major players kind of in that value chain, there is the digital distribution platform, so these are your store fronts, Steam, Google Play, the App Store, Itch, Gog, there are a whole number of them and there are key facets obviously that are hosted online and that anyone in the world can have access to them and both from a consumer and from a
20 developer perspective, you know they are basically open for everybody.

You then have publishers. So, publishers are not necessarily, or the role typically that they would fulfil would be that these would be the people that will fund the development of the games, especially in your large studios,

your AAA industry, the games that are not necessarily funded by the developers themselves. There will be a funding partner, which is normally the publisher and the publisher will often take on the role of marketing and user acquisition, so they have to kind of like build the hype, get, make sure people are aware of the game and then make sure that they kind of have sales and they will often manage that.

You then also have your hardware manufacturers, so this is obviously your Consoles, it is your X Box and
10 PlayStation and Nintendo, but also in the mobile space it is all your handheld devices, so Samsung, Apple, Huawei, you know all the mobile phone operators and handheld they also have a role to play, because you cannot play a game without a device to play it on and they play a very important role because sometimes, as Pieter has mentioned, is that your access to certain ecosystems or access to certain markets is limited somewhat by who has access to what kind of devices they have got.

So something that we see for example in Sub-
20 Saharan Africa, or at least historically, it has only recently been a massive uptake in what we call smart phones which allowed for a full range of game developing to happen, but for a long time Africa lagged behind and predominance type of hardware device that you could get for games in the mobile space is what we call the feature phone and if people

were not developing for those phones, you know they did to really, will not really be able to participate.

This is really important, especially in the Console space where a lot of African countries, it is not true in South Africa, but it is true in Sub-Saharan Africa, do not necessarily have actual access to the Consoles themselves. There is no official way to import those devices into those countries and so they have to rely on a grey market to import them in and so that means that they are not necessarily supported. That obviously has an effect on the consumer market potential.

And then lastly you have the developers. The developers are the people who actually make the game and so these are the programmers, the artists, the production people and in South Africa that is where the bulk of our industry is. We are mostly in the industry of developers, there are no publishers on the continent, at least that are housed here, there are no real Console manufacturers here. They do have representation, but it tends to be more consumer side and there are no digital distribution platforms per se, especially in the PC and the Console space, but in mobile we are starting to see some inroads.

The last aspect that we just want to talk about is that it is very important to understand that depending on where you put your game, there are very different

monetization models that are followed, so I will start with mobile.

The predominant form of monetization there is what we call free to play or F2P, this is probably what you are familiar with. You go onto the App Store, you download the game, it is free to download, you will be able to play and then that can be monetized in two main ways. Either it is done through advertising, so during your game play the game will then serve up ads to you and by watching those
10 ads the developer will then earn a portion of income for each ad that is watched.

Who is watching it is a really important aspect of it, because that determines the value that the developer will earn from the people watching that ad and you will often see that games are being designed to basically make people watch more ads, so often these will be linked to power ups or to advancements, so in-between levels for example you would have to watch an ad for say 10 seconds or they will give you an opportunity to watch an ad to earn
20 in-game currency or gain an extra life.

The other very predominant form of monetization in the mobile space is through IAPs or in app purchases. So this is where through micro transactions you are spending small bits of money over a period of time to unlock certain things, either it can be what we call ascetics, so it does not

have an effect on the game play per se, it just makes your avatar or your representation in the game look different, you can buy hats or different clothing, you can re-skin what the game looks like and often that will be associated to some sort of a nominal amount and what has become prevalent in mobile is that there will be a form of what they call premium currency that you can only earn by spending money and that will often make the game easier to play. It will allow you to speed up certain game procedures, it will give you access to
10 unique content. That is the predominant form in mobile.

We are starting to see it a little bit in PC and Console, but PC and Console are still predominant the premium model. What that means is that you pay a set fee, you pay your 60 US Dollars or whatever the price is, you download the game, you have a complete experience. That is still how the majority of games and Console and PC are played.

A couple of the really big names have adopted kind of more of a game of service or a free to play model,
20 Fortnite is a good example of this for example where the game is free, but then there is a lot of other additional content that you can buy to increase the game.

Subscriptions have also become fairly popular for a lot of games that have a long lifespan, so World Warcraft is a good example of that, but you have to pay a monthly fee to

access that game, what we have noted from a South African perspective though is that the premium model tends to be more “micro-enterprise” friendly and there are numerous reasons for that.

The one is that, as you could probably guess, in order for free to play to work you need a huge amount of subscribers, you need very many users in order to start being able to turn any form of revenue and because there are so many games being released every day user acquisition, so the cost of actually getting someone to download your game and converting that person to a paying user in the mobile space is incredibly expensive and that is actually beyond the budgets of most of the developers that are sort of small, what we see present in South Africa.

While premium allows you to target a very knish audience, you know that you are only going to make about R100 000 sales, but you have got a loyal kind of following that you can get to, the user acquisition cost is significantly lower and you immediately realise your return, because as soon as they make that purchase you get your revenue stream and so that does tend to be favoured by smaller studios.

MR KOORNHOF: What we are also seeing in that particular market, and this is something that the digital distribution has enabled, is the nature of virtual products in that that space

means once you have actually recouped your initial capital outlay you can charge less for the day, but because that is essentially pure profit, everyone wins in that equation.

So, you are still, you are accessing a potentially larger consumer base who are willing to pay less for the video game, but you are actually just making more money as a result of that, because essentially it is, it is a cost of distribution and that instance is essentially nothing.

MR HALL: So, it is important that, so what we see in the
10 premium space, this is true for PC and Console, is that your sale cycle is kind of dominated by what we call bundling and sales. So often what will happen is the store fronts or third parties will bundle a bunch of games together, so they will say well, you can buy, you know give us 20 Dollars and you will get access to these, you know these 10 games and then you will get a portion of that and something that developers will regularly do is that once a certain period of time has passed to say off the first year they will then discount their game to be significantly lower, sometimes as much as 70%,
20 and that is just a way of kind of generating more sales on the long-term as people, as the game is no longer new, but still potentially attracts an audience, but as Pieter said because there is no physical distribution the replication costs are 10 to zero and so every kind of sale, even at discounted rate, tends to be profit bearing.

Okay, so this is just the last slide and then we will talk to the actual questions, but this is an example of the value chain for gaming development and I am going to speak specifically to certain issues or certain actors that are missing in the South African context, and when I talk about systemic issues those are the things that I am talking about.

So right at the, kind of the end, this text is not great, the white on green does not, is not very visible, but you have what we call the developer tools, so this is the
10 software itself that games are made in. The big players in the States are Unity and Unreal. The majority of developers in South Africa are Unity based, although we are starting to see a lot of people gravitate towards Unreal and different, you might find that for certain platforms and certain oasis you might find that they cannot actually use these tools, so you have to use a custom language or a custom engine.

Some larger game development firms develop their own development tools, so they will have their own game engine that they make, but generally that is not something
20 that is present in South Africa. We do not have any development tools that are wholly created and owned in South Africa that are being used at any scale.

Then next in line are your developers, so these are the people who actually make the games. They will then often react with publishers who are responsible for the

funding and distribution or marketing of the game and funders are kind of assisting both the two, because it is either the developers themselves for self-fund, and that is the most common model in South Africa, but what we started to see, especially in the West and in the larger markets in the East is that there is a rise of investors in games, these people who are not publishers themselves. They are purely investors in the gaming industry and they will then fund the development product tools.

10 We are starting to see that they are starting to become more active. Again, there are no actual funders in South Africa that are based here at the moment. Most of our funding, if you do require it for game development it is coming from offshore. Government often plays a role as the funder, though.

 If you look at major economies overseas of Canada, the United Kingdom, the United States, Germany and France, even China, you will see that their governments often play a role as entry level or cede funders for game
20 development projects and that they will provide a grant or significant tax-free rate for people who want to get into the gaming industry and develop those games as a mean of softening those costs.

 You have the distributors, so these are the people who are typically responsible for making sure that the games

actually get to market. This follows, this is certainly true in a more physical world, so when we have actual physical box copies, which is still the predominant model for premium games in South Africa, most games are still bought in actual stores as opposed to being downloaded, although that is starting to change, but in a digital world your distributors are often in line with your internet service providers, because obviously if your consumers do not have internet access there is no way they can get the games, and in South Africa
10 and Africa as a whole your mobile phone network operators play a very important role in the distribution network and what we have seen, not necessarily in South Africa, but certainly in Sub-Saharan Africa and other emerging territories, mobile phone operators often take a very proactive role in distributing local content to their local audiences.

Then you have your retailers, so these are the people at the store fronts. So, if we think about your app stores for example you, Google Play, Steam, those typically
20 would form the role of the retailer. You know, they are the ones who are actually making the sale on behalf of the developers and the publishers to the actual consumer markets.

For South Africa and Africa as a whole two very important players in that space, again they are not really

part of the value chain, but they are necessary for the value chain to be realised, are your payment gateways. So again, in additional distribution if you do not have a bank account and you do not have a credit card you cannot really access those payment, these store fronts and so unlocking the African market has actually mostly been hampered by a lack of monetizing them effectively through payment gateways and so Fintec or the financial tech sector has become incredibly important in unlocking the consumer market.

10 And then I talked about the, in the free to play model how you could use advertising as a means of income generation, that is done by third parties for the ad networks and so these are people who are essentially ad auction houses and what they will do is they will say okay well, they will go to people who want to advertise products and say we have a potential audience of a million people all over the world, we have intrinsic data about what they like and what they do not like and what they want, do you want to market your products to them, and we will do that through a game.

20 So, they will say yes okay, I am interested in marketing this service to South Africans based in Cape Town, then when somebody in South Africa in Cape Town is playing a game that ad will then be served to them directly.

Now the value of that vat ad for the developer and

for the ad network is based on how many people want to advertise to that specific consumer and so in markets for example in the West and the United Kingdom and the United States where there is a lot of demand to get ads in front of these consumers it drives up the price to acquire that ad, while what we have seen in Africa and South Africa is it also true because there are not many people trying to market directly to these particular consumers to this particular channel, it means that the price of those advertising slots is
10 very immature and very low and so it becomes incredibly difficult for local developers who are focusing on local market [indistinct – 00:03:53] effectively, and then lastly you have your consumers.

Okay, that is kind of a whole value chain. I think just Pieter, just go back again, I just want to point out something.

MR KOORNHOF: Oh, yes.

MR HALL: So, what is important is that if you look at this value chain in the South African context, we only really have
20 developers and consumers. In the physical product space, we do have distributors and retailers, so there are actual store front selling stuff and there are people who bring in the games from the various publishers to sell, but in the digital space it is basically nonexistent.

So, there are significant gaps in the value chain in

the local market and we attribute a lot of that to the lack of growth and the lack of development, amongst other things.

Pieter, I need to ... [intervenes]

CHAIRPERSON: Doctor Koornhof and Mr Hall, may I ask you to just pick up pace just a bit?

MR HALL: Yes.

CHAIRPERSON: Time is of the essence at the moment.

MR HALL: Yes.

MR KOORNHOF: Apologies, yes, we are going to just run
10 through the questions that we have identified in the statement of issues and further statement of issues which we think we can specifically speak to. So, the first question that we have identified, so how will the shift by Huawei and Samsung as they are an operating system in app stores impact in the share of market moving forward in South Africa?

We think it is, at this point in time it is too soon to say. It could be a potential barrier to entry, because the reality is that any instance where you have to build again or
20 make an iteration thereof for a new platform, adds additional costs. So, the fact that there are more opportunities to put your game out there actually might not necessarily be beneficial if you do not have the outlay to in fact place video games on those particular markets or those particular platforms, but there is also an opportunity there for a first

mover advantage and to the extent that there are companies in South Africa engaging in service delivery through things like porting.

Additional platforms create additional opportunities for them to then sell those services to interested companies. We know that certain of these new platforms will likely provide incentives for developers to try and develop games for them, so that would be potentially beneficial. So, we think it will probably have a net beneficial impact, but it is
10 probably too soon to say. Nick, do you want to take the next part?

MR HALL: Yes. Okay, so how important are ads in features for gaining visibility for an app, and can small apps get visibility through ads or are they outspent by large app developers? So, it depends on where you are facing your ad, also rather where, what type of platform you are marketing your game on. It can be set for smaller studios, generally speaking traditional advertising is not used at all. Your user acquisition strategy is completely different and it
20 has moved on from that. So very little, if any of our game developers, are actively spending any money on traditional ads to sell their games, because the way that you gain users is through community building and through more organic means.

The other thing that is really important is that, as

mentioned in the value chain, this is not typically the role of the developers, though, this is the role of the publisher. The publishers would be the ones who would be taking up ads, they would be the ones who are putting on that cap for outlay, so to say, so rather the question then becomes it is not about are ads important for the developers, they are, but it is more important for them if they can get a publisher or not to fund that, and you will see that developers who do get publishers tend to perform better because they have a
10 dedicated team who is managing the PR and promotion and marketing of that game.

Features are an important aspect with regard to whether you have a publisher or not. In our experience being able to be featured on a store front can drive significant traffic, often though that will form part of a sale or a bundle though. So yes, you are getting promoted on a store front as kind of a top app, but usually it would be associated with some sort of sale or other activity, so you are selling at a discounted price.

20 That tends to be driven by other issues though. It is not as though it is something that you pay for, you do not go to Apple and say okay, well if I give you a thousand US Dollars you are going to feature me. I am sure those sorts of deals do exist, but in our experience, what happens is the app stores try to create features and bundles based on other

things. So, it is Halloween, we are going to look for games that Halloween type content.

It is Africa Week, and this is something that has happened both on Google, on Steam and on App Store where the platform holders they will say okay, well it is Africa Week now and we want to focus on African games, and so they will find them and promote them. So, there is quite a lot being done there, it is important, but again I think the more traditional ad spend is not really something that is used in
10 the games industry and to the extent that it is done it is not the role of the developers to do it, it is the role of the publishers and so it is not really an issue that we deal with in South Africa.

MR KOORNHOF: So, then the next one, do South African apps complete with the app store ecosystem's own app, if so, what impact does preferencing have and does this kind of impact on South African consumers? So as Nick mentioned, there have been some attempts locally to build our own versions of app stores in the past. I believe MTN
20 Gaming was an example of that, Nick.

And there are still some efforts to do so, but largely these efforts require massive capital outlay and because of the size of the consumer base here it often does sadly end in failure. So, unless there are external factors, you know, cultural factors and the significant, or the significant

language factor often we see in such markets such as China, regional store firms do not necessarily work.

So, we tend to, so soft prefacing is not really an issue here in major store fronts. We do, we do not build games necessarily for South Africans, we build games for the international market and so there is an opportunity for us as a result as a developer to place our game on more than one store front, unless there is an exclusive agreement there and for a consumer, with exception, there is an opportunity
10 to halt you home as well.

So, if I am a person playing a game on a computer I have access to good old games of com, I have access to Steam, I have access to Itch, I have access to Desura. I do not necessarily have to choose.

The only limitation there is if there is a hardware limitation, so for instance if I am playing my video games on my Apple device usually, I would only be able to get it through the Apple App Store and again there are some further exceptions when we deal with things like platform
20 exclusivity, so there is possible to make a game for only a particular system, but as a general rule this is not an issue in the South African context. Nick, do you want to take the next few questions?

MR HALL: Sure, I will take the next few because they are kind of old. So, does the Commission charge by app stores

described as code developers in South Africa? That is 15% no, that is actually a very small consideration the developers have. There is far more impact for things that determine where a developer puts their particular game when they are choosing a store front, the big ones being death kit.

So, if you want to make a game for the Nintendo Switch you need to get a special version of the hardware to do so. Currently you cannot get death kits for any of the major Consoles in South Africa, not Lead, not [indistinct –
10 00:38:26] you have to rely on grey imports to do so and that often excludes a lot of people. A lot of people may be able to make games for PlayStation, but they cannot actually do it because they cannot get hold of the hardware that they need to do so.

Certain licensing models or application fees can also have an impact. Some store fronts require you to pay a fee in order to lodge your game onto that store front and that exclude people, what we tend to see though is that store fronts that do that tend to have better user curation, ja. So,
20 if you can get yourself onto that store front by paying that fee you are much more likely to be discovered and you are much more likely to generate revenue, rather than a free platform where anybody can add things.

You then lose out, because your advertising spent actually noticed goes through the roof and often that is

beyond most developers. So, would lower commission fees result in lower consumer prices? Remember, in mobile where you are not paying anything, it is free to play, so it is not going to have any impact at all and in PC and Console where we have seen certain store fronts lower their fees, it has not led ultimately directly to a lower increase of the consumer prices, the developers will bring on those additional costs themselves.

10 What we have seen over time though, as we have mentioned before, is that over time though the price of games does tend to go down anyway, so on the long-term consumers would benefit, like if they wait a year or so to play a game, they will then be able to get it at a significantly discounted rate.

MR KOORNHOF: So, the last few questions which we are quickly going to run through, because we are mindful of time, should app stores be doing more to promote participation of South African, African app developers? We, to a certain extent, certain app stores really do highlight and
20 back South African games and studios are. The anecdotal evidence is that there is an increased interest in Africa as a consumer market and also develop games and then also particularly in South Africa.

So, we are seeing more and more publishers having interest in these markets. Our problem that we have seen

time and time and time again is actually one coming from the side of government, so the problem is not that the studios are not doing enough, it is the fact that notwithstanding that there are systemic issues and regulatory issues hampering development within the South African context much more than app store conduct at this point in time and this kind of takes us to the last question, which I think Nick, if you want to take that one.

MR HALL: Ja, so if we look at the other barriers, the big
10 thing is that it must be said that games are very expensive to make, so often the biggest barrier that people face is actually getting the funding and the capital to make games.

As I mentioned before, if you look at our ecosystem, we do not have any funders native in the ecosystem currently in South Africa and often that, and especially for your initial development if you look overseas at the major markets that initial funding, prototype funding, development funding, cede funding is often coming from government, which is obviously nonexistent here at the moment.

20 The other big issues that we have as around, there are kind of three major regulatory issues that we have seen have had and hampered studio development. The first is around accessing local audience. If you want to release a game in South Africa it has to go through the Films and Publications Board, that process has been very frustrating

for a lot of developers and has ultimately led to a lot of them just not doing it.

So, we have got games that are made in South Africa that are never released in South Africa because they cannot really do so, because they do not have the FPB compliance, the age rating to do so and their best attempts to try and get that classification are often futile and so they have just abandoned it.

Also, the legal risk of releasing a game in
10 South Africa without that age classification is so severe that most people just avoid the market altogether, they are not prepared to do that.

Exchange control regulations are a big issue for a lot of our services firms and again given that most of our income is derived offshore it is fairly frequent for studios to have issued both paying external service providers, but also bringing their income that they have earned through sales back into the country and there is often headache that are experienced there.

20 And then lastly something that we see is, which is a common problem is the skills development pipeline in South Africa is relatively immature. To expect new entrants to be able to develop a successful game in a highly competitive market without any prior experience is a folly and again if you look at kind of major ecosystems overseas

there is a concerted effort to be able to enable skills to be transferred into the country by hiring experienced talent.

Currently the South African VISA system excludes or prevents us from bringing in that talent necessary. It is not seen as a scarce skill, it is not seen as a specialised skill and so there have been attempts by many studios to bring in experts from overseas to train up their employees, and they just cannot do it. Ja Pieter, do you want to speak to that last point?

10 MR KOORNHOF: Well, no, so I just want to be mindful of the fact that, so to the extent that there is a concentration within the South African market and potential competition issues arising here, some of this is actually artificially being created by some of the regulatory barriers of entry that have been created by government and so we realise that this is not necessarily directly in the purview of the digital platform market inquiry.

20 It should be, one should be mindful of the fact that sometimes you know, these aspects are in fact exacerbating you know, the impact you know, on consumers and small businesses, even more so than the conduct of digital platforms, those digital platforms and that is really all we wanted to say. We are mindful of your time and we know we have taken more of it than we should have and we are thankful for the opportunity to be able to speak to you.

MS TSHEPE: Thank you so much, Doctor Koornhof and Mr Hall. I am not going to deal mostly with the issues that you raised towards the end, just from a time perspective. We may have given proper time, we may have had time to engage with you more on those or even push you to engage a little bit more, but we do not have, so I just wanted to deal with you, and I think it will be three issues.

MR KOORNHOF: Yes.

MS TSHEPE: And the first one is going to be dependency, particularly on platforms and then the next issue is ranking and discoverability and just to hear your views on that, and the last issue is going to be on commission fees.

MR KOORNHOF: Yes.

MS TSHEPE: Team, if you feel the need to just come through in some of those questions please do so. Just on dependency I just wanted to understand from app developers' perspective in the country, can you explain just how dependent they are on Google Play Store and Apple App Store?

20 I mean, I am assuming that there is a lot of dependency, given the number of consumers these app stores in particular do have, if you could just comment on that.

MR HALL: Do you want to start, or should I?

MR KOORNHOF: No, sorry. Yes, there is, the dependency

as you correctly point out is, to the extent that it exists is because those store fronts have the consumer market, right. You are going to put your game in front of the place where you are sure to make sure that the maximum number of people can see your game. There is nothing precluding you from, and often this is the case from relying on multiple store fronts, so this is especially true in the PC and Console area for example where you will have a simultaneous release on both PlayStation and X Box and PC and you might be even
10 selling the game on your own website for example, directly to the customers. This is a model that is fairly common.

So ja, and given that the cost of getting onto those platforms for the most part is relatively nothing, it does not cost a lot, it is fairly easy to do so. You are going on to as many app stores and as many store fronts as you absolutely can to make sure that you have most market penetration with the exception of, unless you have got a funding deal that precludes that.

So, what will happen is that you might find that
20 somebody like Epic for example, they have an exclusive store front, they might say well, because we are paying for your game to be made you can only release it on the Epic store front for the first six months, so ja. There is a dependency to the extent that it is where, it is easier and cheaper for you to access their consumer market than to try

and do it on your own, but there is nothing in their terms of service or the way that they behave that prevents you from going on multiple stores and often you will do that, unless there is some other factor preventing you, be it legal or budgetary.

MS TSHEPE: Thank you, thank you for that, but obviously I would imagine for, particularly for South African developers to be able to access those consumers, what you have already referred to as consumer acquisition, issues of
10 ranking and discoverability of the apps developed is a key issue. How do you think as South African apps we fare in that regard and what could we be doing better or these platforms be doing better to enable our discoverability or ranking, ranking of our apps to be better?

MR HALL: So, I think there is a point that needs to be raised that it is important that obviously we can only really speak to games, but I do have some experience in sort of more traditional apps and I think there is a distinction that needs to be made here.

20 Obviously, the app stores have a targeted, they are able to target their consumers and rank and promote certain things and where there is a clear need or an example of a domestic app that has been purely for a domestic market, those will often be given preference.

As an example, the Checkers 60 app is not going to

be promoted in the United Kingdom because Checkers does not operate there, so there is no sense, but that is going to get a far higher priority in terms of the advertising and its placement in local app stores, because that is where it is going to be and ultimately, and a lot of this is actually controlled by the developers themselves.

When you log your game or your app onto the store you choose which jurisdictions it is available in, the distinction with games however is that you do not, because
10 you have a global audience you want to reach as many people as possible and that is true not only of South African developers, it is true of everybody. So, everybody is competing with everybody else and all the audience, so discoverability is a huge issue, but it is not necessarily something that the store fronts can do anything about, because again it kind of defeats...

Like our games, I do not want to market it exclusively to South Africans, it makes no sense, the consumer market is too small. If I did that, I would kill my
20 business. I need to be making sure that I have got a global reach, so you know and just anecdotally and just to show any game that has tried to focus exclusively on the local market and they have received preferential treatment from the app stores in doing this, there have been a couple of instances of games that have been developed solely for the

local market that are clearly South African focused, that get promoted in the local app store, they still fail.

It is not because the app stores are not doing enough, it is well, they are not being discovered. They are being promoted; they are being featured. The consumer market just is not large enough, it is quite frankly the issue, so we have to be going on a global scale and that means that we are competing against everyone else unfortunately, and that is just the nature of it and this is why the role of
10 everybody else in the value chain becomes far more important, that is why getting a publisher is often seen as one of the key reasons on whether you will make or break, because they have the funding, they have the capital and they have the networks to ensure that your game gets promoted and often they will be responsible for user acquisition.

MS TSHEPE: Thank you, thank you so much Mr Hall. I just wanted to just go just a little further, just so what is the strategy then by gaming companies in South Africa to
20 acquire users, particularly global users?

MR HALL: Okay so that, so it will depend on whether they have a publisher or not, I mean let us just put it out there, that does change if you are spending your own money or somebody else's money, but even with publishers what we have seen in the type of games that we are making, so let us

just say the budgets for our games are in the region of about 500 000 to about 2 million US Dollars, which are very, very small budgets compared to kind of the global average, so we are talking about very knish [indistinct – 00:52:53].

Often what we do is, what most people will do is they advocate for something called open development. So what happens is that you will use social media and other channels to post about your game and talk about the development, you will interact with journalists and other
10 media who will then do features or write up about your game, you will stream your development using Twitch or YouTube, you would post development logs and basically, and you will make the game, a prototype of the game freely available for people to play and because there is just this massive audience, people are constantly looking for new content and if they find a game and they like it then they will start following it and a lot of the store fronts facilitate this.

So, for example in the PC market we have something called Steam, they have a mechanism called wish
20 listing. So you make your game available for free, people can download and they are ooh, I quite want to do this, I am interested in seeing this game, I am going to wish list it and so basically it says that when your game does become available for purchase they get notified of it and then they kind of bring it through and so you build a community around

your game first and foremost during development and that community will often act as your ad network, because through word of mouth and through soft and organic advertising mechanisms they will then go and spread the word about your game.

Awards can be useful, there are a number of industry awards, both globally and locally, and if your game wins one of those awards that can often lead to promotion. Ja, so that is how traditionally a lot of our current developers
10 will do it, ja.

When you start going into the much bigger industry, so if you look at AAA, so these are games with hundreds of thousands of Dollars in budget for just the development of the game, they are often spending, if not the same or double on advertising and that is through your more traditional means, and that is just beyond what we have available for us just because we are not making those kinds of games.

So, if you think about something like Fifa or Candy Crush or Call of Duty, anything like that, I mean those games
20 will have costs between 100 to 200 million US Dollars to make and they will have an advertising budget for 4 to 500 000 million US Dollars, but it is because their budgets are so big, they have to be spending so much more money to make sure that they are gaining the users.

Because our budgets are smaller, we do not have to

follow as an aggressive route, there are more other low-cost mechanisms that we can do it to acquire those users, which is what is preferred.

MS TSHEPE: Thank you for that. We heard while we were in the morning and it leads me to the next question, which is in your view do you think app stores should be assisting South African mobile game developers in order for them to be able to compete globally?

And specifically, what I wanted to ask you is do any
10 of you, have any of your members had any experience with, while they are talking about some of the promotions that they have been doing of local developers and how that has planned out and whether that has led to downloads, more downloads of those apps, if you could just answer that particular question?

MR KOORNHOF: Well, okay, so obviously look, yes look, if the platforms did give preferential treatment to local developers that would naturally, hopefully lead to natural uptake, but they do that, why would they give, again and
20 again, I would ask for nuance on that question because who, where are they giving that preference?

Are they giving preference in the South African consumer market solely or are they giving us preference at a global level? Because if they are giving us preference at a global level absolutely, I will take that deal, because it

means we are going to be reaching a fare more significant audience.

If they are going to do it at a local level, I mean it will be nice, but I do not necessarily know that that will actually result in any meaningful change or meaningful income. I cannot speak to Huawei, I have never, we have never really, well we have released apps on their store before, but we have never been part of kind of a deal where they have promoted us, but I can say that in other instances
10 on Apple for example and Google Play where preferential treatment was given as part of a bundle it did lead to some kind of uptick, but again it intended to be part of some other themed reason.

So there was an event called African Games for example, Apple did a promotion as part of that, then there was for Earth Week, I think there were a number of African games that were highlighted because of that and I think if you would need to, I would advise to look at markets outside of South Africa, look at Nigeria and Kenya as examples of
20 where promotion in their local markets or preferential treatment has led to some change, but the big difference there is that they have different monetization mechanisms because of mobile money, which is not present in South Africa and I think that is kind of the gap that we have seen is that yes, we have been given preferential treatment

in the local, in the domestic market and it may lead to more downloads, but more downloads does not mean more money, right and that is the big thing, it is monetizing the local consumer audience, it is incredibly difficult and not something that has really been dealt with adequately, while Nigeria and Kenyan are good examples because they have Mpesa or equivalents which allow, are fully integrated into those mobile networks, they are much more able to monetize their local audiences more effectively and so that
10 preferential treatment does actually result in more revenue and more profits for them, but in South Africa that is not necessarily true.

I can get sort of South African audience, but if I cannot monetize them effectively it does not matter and remember, just because people are downloading your games it does not mean that you are monetizing them effectively and that is the missing piece and again that is not a store front issue per se.

You can have all the promotion you like, if people
20 are not paying, especially in mobile which is free to play based, if they are not converting to paid users, and in South Africa typically that is because of systemic issues, because they do not have credit cards, they do not have a means of paying if they wanted to, it does not matter how many downloads you are getting and then this is linked to

the ad network issue, is that if my ad spend, if I am only getting a tenth of each cent for each ad impression that I am making, it does not matter that I have got all these downloads.

I am just not getting the sheer volume of numbers to make it commentary worthwhile, so I think that is a very important distinction, is that there are other gaps in the value chain that are, even if we would receive preferential treatment, it would not necessarily result in a better economic outcome for the developers.

MS TSHEPE: Thank you, Mr Hall. Can I just move now I think to the last issue, which is commission fees? You have touched a bit on it in your presentation, but I just wanted to find out from you and your members whether in their view the 30% commission fee is seen as a fair fee or even the recent reduction to the 15% that has just been introduced. In your view, given the value that the app stores add to your members as developers, would a 30% commission fee or a 15% fee be seen as fair?

20 MR HALL: So I would like to give a historical perspective here and I am not going to speak about mobile, because it is a bad use case, because remember the way that you are monetizing there is different, your games are going away for free, so you know the nature of your advertising, you are monetizing on alternative means, which is not necessarily

tied to that subscription model, which is primarily premium based, but I would like to give the example of Steam which is the predominant PC digital distribution platform.

So many years ago you could not get your game onto Steam, you had to be selected to get onto Steam and we had some South African games that even managed to do that and because it was a highly curated store front that had a large consumer market, getting onto Steam basically guaranteed financial success and at that time many
10 developers were like well, it does not matter, you know we are very happy to pay that 30% because it is giving us access to a guaranteed audience that we are able to be discovered in.

Fast forward to now where Steam has opened up its store front so that anybody can upload onto it, it has made discoverability far more difficult and I know that there are a lot of people who are questioning whether that 30% is still of value and whether Steam should not be doing more for its developers to help them, assist them with discoverability,
20 which is ultimately the big issue, it always comes down to discoverability, and does that justify it?

The drop to 15% happened with the Epic Game Store, which is a consumer to Steam, right. That has not led to mass migration though, alright, it is not as if everyone has kind of abandoned Steam now in favour of Epic, they are just

putting them on both platforms because again remember, why not?

It is about, the problem that Epic faces is that they do not have such huge consumer, they do not have the larger market footprint as steam does. So, while it is welcomed and while I think a lot of developers would argue that steam and other platforms should be maybe doing more for their commission, it is not actually, I mean it is a nice to have, but it is not an essential.

10 There are far more bigger issues that are, that developers are thinking about or considering when they are choosing as store front and ultimately because it is kind of, you are making, try to go for a big a market as possible, you will go on to as many markets and as many store fronts as you can and also 30% has in many ways become normalised. It was and is still the industry standard for a lot of things, so we have kind of become accustomed to it, ja.

MS TSHEPE: But if I may just ask just on that, I mean just imagine you had to pay only 10% of commission, I mean
20 could you say for example the 20% goes into marketing and promotion of your app? And that is the context within which I am asking whether it is fair.

MR HALL: Oh okay, ja.

MS TSHEPE: So, understanding that it is an industry standard, but could we be looking at other percentage?

MR HALL: Exactly. Okay, so the problem there is that remember, if I am using my 20% income that I am, or the actual 20% of marketing, it is too late. Remember, games do not make, they make money after you have incurred all of your capital expenses, including your marketing.

It does not matter, and I suppose this is the thing, it does not matter that I am losing 30% or 20% or 15% after the fact, because I have already incurred those costs and the problem that South African developers face, and this is
10 not just true for South Africa, this is true of all small developers, I never had that 20 million to spend on advertising anyway, so the fact that I am getting more of my revenue back, yes it means I have to sell less games ultimately, but I am not going to be able to channel those fees into it.

I am still going to have discoverability issues, I am still going to have problems acquiring those users in the first place and that capital outlay is not going to come from the store fronts, so this, and this is why the roles of publishers
20 are so important, because they are the people providing that capital before your game is developed to make sure that the market audience is there and one of those funding, you know that is the thing, it is that you are spending the, over the course of two to three years a million to 2 million US Dollars on development alone, now at the same time you need to be

advertising and marketing and promoting that game immediately from the start, from the day that you start writing the code you need to be promoting it in some form and that is going to cost you money and these store fronts are not going to give me that money, it needs to come from somewhere else.

So ja, like yes, it means ultimately that maybe I would have to sell less units, but it is still not going to solve, I cannot use those deferred savings *ex post facto* to
10 promote my game more, because it is already too late by then and I think that, where the income comes and the income stream is really important.

It happens after I have incurred all of my expenses and then I am trying to recoup, so that is why you will see a lot of the benefits and grants and subsidies that happened for games, happened at the development stage, it is to lower those development costs, so then you have more money to spend on marketing as opposed to trying to reduce the sales basically, if that makes any sense. Does that answer your
20 question?

MS TSHEPE: Partly, but I think we have run out of time at the moment and I would just like to thank you, Mr Harris and Doctor Koornhof, for the time you have taken to be with us and participate in this process.

MR KOORNHOF: Thank you very much.

MS TSHEPE: Thank you very much. I think we will take a break now, adjourn and we will resume at 14:00 for our afternoon session.

MR KOORNHOF: Thank you.

MS TSHEPE: Thank you very much.

MR HALL: Thank you for your time.

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