

An Epic showdown: 'Fortnite' publisher's suits vs. Apple, Google and what it means for you

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The Fortnite competition is going way beyond the game.

First, Epic Games, the publisher of the popular online video game, introduced a direct payment option for mobile players—sidestepping the Apple App [store](#) and Google Play store payment methods, which nets each of those tech giants a cut of the revenue.

Apple and Google, subsequently, pulled the [mobile game](#) from their stores. Epic Games' answer? Suits filed against both companies describing each one's app store as anti-competitive and monopolistic.

How the confrontation plays out has massive implications for how—and who—consumers pay for apps such as games and streaming entertainment. "This is a big deal," said Michael Pachter, an analyst with Wedbush Securities, in a note to

investors. "Epic is challenging Apple's (and Google's) pricing within their stores and offering an alternative for users to get the same thing at a [lower price](#)."

What is the argument?

Founded in 1991, Epic Games is well-known as the publisher of games such as Unreal, Gears of War and Infinity Blade, as well as the Unreal Engine, which powers countless video games from Batman Arkham Asylum to Sea of Thieves.

Its free-to-play game Fortnite, released in September 2017, has become a hit with 350 million players across multiple gaming platforms including video game consoles, PCs, and Android and iOS smartphones and tablets. The game generated an estimated \$2.4 billion in revenue in 2018 and \$1.8 billion in 2019, according to SuperData, a Nielsen company.

Fortnite is free to play, but you can buy in-game currency called V-Bucks which is used to purchase new weapons, customized outfits and dances, or emotes, for their in-game personas. When players on Apple and Android devices spend, Apple and Google get a 30% cut of those sales.

Epic Games CEO Tim Sweeney has argued that the online marketplaces that sell games—Apple's App Store, the Google Play store and Valve's PC game store Steam—take an unfair cut from game sales and in-game transactions.

Its new mobile payment system for Fortnite players on Android and iOS devices gives players a discount compared to buying through the Apple and Google apps. As of Thursday, players could choose to purchase 1,000 V-Bucks directly from Epic Games for \$7.99—the same price as on PCs or

home video game consoles. Through Apple's App Store and Google Play, the same purchase costs \$9.99.

It's not Epic's first move against what it considers higher-than-suitable charges. In December 2018, Epic opened its own online PC game download store, charging game makers 12% for sales, to compete with Steam, which also charges a 30% cut on sales.

"It's about economic efficiency when you have these stores sucking out a huge fraction of the profits from games," Sweeney told The Verge in April 2019. "Valve, Apple, and Google make more profit through their storefront fees than the devs make off their own games."

Are app stores anti-competitive?

Not inherently. App stores serve as one-stop shopping for consumers for all kinds of applications including games. And the device you use allows you to make a choice on which marketplace to support.

Within the app stores, companies such as Apple and Google curate content and help connect [game](#) makers with consumers. "There is value to that," Pachter says. "Epic doesn't dispute the value, but thinks it's closer to 12% than to 30%."

Dan Niles, founding partner of AlphaOne Capital Partners, told CNBC that Apple deserves payment for access to its App Store. "I mean, I have a lot of issues with Apple, but the charges they put on the App Store is not one of them," he said. "I mean, at the end of the day, Epic Games chose to be on the platform; those were the terms. If they didn't want to do it, they didn't have to, and they get a lot of benefit from being able to access Apple's 1.5 billion devices globally."

Does this mean higher or lower prices?

That depends. If you are currently a Fortnite player on Android or iOS through Epic's payment method, you are getting lower prices with that 20% discount. And Epic's prices on consoles and PCs apparently seem reasonable to the millions who pay for V-

bucks on those platforms.

Developers such as Epic, the company argues in its suit against Apple, are forced to charge higher prices "in order to pay Apple's app tax."

Breaking Apple's hold on distribution—and giving developers access to iPhones directly—would lead to lower prices, says Sandeep Vaheesan, legal director of Open Markets Institute. Tying arrangements, such as software for devices, require consumers to pay for a product that could be priced higher simply because the party—in this case, Apple—has certain power and leverage in the market, he says.

"When firms such as Apple dominate a market, they decide who participates and on what terms," he said in a statement. "Epic's lawsuit is an important move against Apple's monopoly in the sale of iPhone apps. The federal judiciary must enforce existing antitrust prohibitions, including the categorical ban on tying by firms with power, and open the app market for iPhone owners and app developers."

But an open market could lead to consumers paying another way—with less secure and less reliable apps—argues tech consultant and business advisor Shelly Palmer in a blog post. Apple and Google created online malls and they "rent space to 3rd parties. The price is 30% of your sales. For that 'fee,' you are given access to millions of potential customers. There is no version of a mobile Fortnite without the app stores," he said. "The [app store](#) guidelines basically ensure a level of quality control for end users."

Alex Kantrowitz, founder of the newsletter Big Technology, told CNBC that Apple should back down, and lower Epic's fee. "Rent collecting is bad for its business long term. So you have to decide as a business, do you want to make your money milking your asset or do you want to make your money innovating into the future?"

In the end, whether prices go down or up will depend on how this standoff is resolved. When Fortnite gets an update and current players don't receive the new content, will their anger be directed

at Apple and Google or Epic? And then, what will the response be?

When will this be resolved?

If the disputes play out in the courts, they could take a long time. The parties could come to a settlement.

And the threat of Congressional regulation on big tech—the CEOs of Amazon, Apple, Facebook and Google testified before a House Judiciary subcommittee two weeks ago—could be enough for Apple to submit.

Apple, in the past, has made deals. It reduced how its cut from 30% to 15% after Spotify subscribers' first year. But Spotify still filed an antitrust complaint against Apple in the European Union last year, charging the "Apple tax" and other App Store measures hamper its growth.

During the April-June quarter, Apple—now valued at nearly \$2 trillion—reported revenue from Services, which includes the App Store, Apple Music, iTunes movie rentals and iCloud online storage, of \$13.1 billion, up from \$11.4 billion a year ago.

Epic, which is private, is braced for battle. Earlier this month, it got \$1.78 billion in investments, including \$250 million from Sony to acquire a minority interest in Epic, boosting the company's valuation to \$17.3 billion.

The influx, Sweeney said in an announcement of the funding, "accelerates Epic's efforts to build a new kind of digital ecosystem using real-time 3-D technology, services that connect hundreds of millions of people, and a digital storefront that offers a fair business model."

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