

Apple - Who Pays for Openness?

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Decision scope: EU iOS app distribution and payment terms

Case convention: This is an author-created management decision exercise. The assignment and proposed alternatives are hypothetical; company and stakeholder disclosures are historical. No private deliberations are represented.

The decision

On 25 January 2024, Apple announced major changes to iOS, Safari and the App Store in the European Union. Among them: iPhone users would be able to install apps from alternative marketplaces, and developers could use payment providers other than Apple's in-app purchase system. Apple also announced new EU commercial terms for developers who wanted those capabilities. Developers could remain on existing terms, but they would need to adopt the new terms to use alternative distribution or payment. [S1]

The new features were expected to become available with iOS 17.4 in March. The European Commission had designated Apple's iOS, Safari and App Store as gatekeeper services under the Digital Markets Act (DMA), giving the company six months from designation to comply with the obligations. With that deadline approaching, Apple had to decide whether to proceed with the announced package, revise it, or change how it would be implemented and evaluated. [S2]

Assignment: Recommend how Apple should implement its EU app-distribution and payment terms. Should it proceed with the announced package, or revise the fee structure or safeguards before rollout? Explain how your choice could affect developers, users, platform trust and Apple's economics. Identify what evidence Apple should monitor and what would prompt a change in direction. Use only information available by 29 February 2024.

The rules and the platform

The DMA's obligations relevant to this decision address both user access and business-user terms. Article 6(4) requires a gatekeeper to allow and technically enable installation and effective use of third-party apps or app stores, including access by means other than the gatekeeper's own app store. Article 5(4) addresses business users' ability to communicate and promote offers and conclude contracts with end users outside a core platform service. Article 6(12) requires fair, reasonable and non-discriminatory general access conditions for business users to a designated software application store. The law sets the requirements; Apple's announcement describes its proposed implementation. Whether the package satisfied the DMA remained for the Commission to assess. [S2]

Apple's App Store connects developers with iPhone users and provides app discovery, distribution, payment processing and technical tools. Apple's FY2023 annual report said developers kept all revenue for the vast majority of applications, while Apple retained a

commission on app sales and on digital goods or services initiated within apps. Apple reports third-party App Store sales net, recognizing only the commission it retains as Services revenue. It did not separately disclose App Store revenue, European commission revenue, platform costs or developer-level fee exposure. [S3]

Apple argued that the new terms reflected the value of App Store distribution and discovery, secure payment processing, the iOS platform, and the tools and technology available to developers. It also warned that third-party distribution and payment options could introduce malware, fraud, scams, harmful content and privacy or security risks. Apple said its proposed notarization, marketplace authorization and payment disclosures would reduce, but could not eliminate, those risks. These were Apple's assessments, not measured outcomes. [S1]

What Apple announced

Apple described two business-term choices for EU apps:

Choice	Distribution and payment options	Commercial terms announced on 25 January
Existing terms	Continue using the App Store and Apple's existing payment/distribution arrangement.	Existing terms remain available; the release does not restate the full existing fee schedule. Developers choosing this path could not use the new alternative distribution or payment capabilities.
New terms	Use the App Store, an alternative app marketplace, or both; on eligible App Store apps, use Apple IAP, an alternative payment processor, or a link to a website.	App Store digital-goods/services commission of 10% for most developers and qualifying subscriptions after year one, or 17% for other transactions. Apple IAP adds 3%. Apple said it would charge no additional payment-processing fee for alternative payment or website payments. A €0.50 Core Technology Fee (CTF) would apply to each first annual install above one million. [S1]

The CTF applied to iOS apps distributed through the App Store and/or an alternative marketplace under the new terms. Apple estimated that 99% of developers would pay the same or lower fees under its new terms and that fewer than 1% would pay a CTF. The announcement did not disclose the developer-level calculations or the distribution of affected developers by install volume and revenue. [S1]

Apple's general platform economics were substantial: for fiscal 2023, it reported \$85.2 billion in Services revenue and a Services gross margin of 70.8%. Those totals include many businesses besides the App Store; they cannot show the specific economics or costs at stake in the EU app changes. [S3]

Developers and a competing platform

Spotify, a music-streaming competitor to Apple Music and a major app developer, objected to the announced terms. It argued that the combination of commission and CTF could leave popular developers no better off and said the install charge could increase its own customer-acquisition costs if it left the App Store. Spotify cited an EU iOS install base of roughly 100 million and described potential increases of up to tenfold. These were Spotify's claims; its statement did not provide independently verifiable cohort calculations. [S4]

Google had already introduced an EEA program allowing non-game apps to offer alternative billing on Google Play. Google said developers using alternative billing paid a service fee three percentage points below the otherwise applicable rate, with service fees and user-protection requirements remaining in place. Google stated that 99% of developers qualified for a service fee of 15% or less. This offered a competitor precedent for alternative billing, though not a like-for-like comparison with Apple's alternative marketplace and install-fee package. [S5]

The two positions pointed to different risks. Apple emphasized platform services, investment and user protection. Spotify argued that the announced fees could blunt developer choice and preserve the economics of the existing arrangement. Google's program showed that a rival platform could allow alternative billing while retaining a reduced service charge. Apple lacked public developer-cohort data to settle how its own package would change channel selection, app economics or user outcomes.

Exhibit 1. Strategic mechanisms to evaluate

Mechanism	Possible benefit	Possible cost or risk	Evidence gap at the cutoff
More distribution and payment choice	Developers could use new routes to reach users, differentiate offers and design payment experiences.	More channels could fragment discovery, payment support and accountability; developer uptake might remain low.	No observed Apple alternative-store or alternative-payment adoption, because the announced capability had not yet launched.
Retaining platform safeguards	Review, notarization and marketplace rules could preserve some consistency and reduce user harm.	Safeguards could add time, cost or constraints that reduce the value of alternative distribution.	No measured comparison of incident rates, user trust or review costs across channels.
Commission and CTF design	Commissions and install fees could fund platform services and give Apple a return across different distribution/payment choices.	Combined percentage and per-install charges could affect high-volume, low-monetization apps differently and discourage migration.	Apple did not publish App Store-specific EU cost or revenue data, developer cohort calculations, or elasticity estimates.

The choice

Apple could implement the announced package while preserving the choice of existing terms and monitor how developers and users respond. Or it could revise the package-such as the CTF's structure or threshold, the relationship between commissions and services actually used, or the safeguards around alternative channels-before or during implementation. A revision could make the option more attractive to some developers, but could also reduce Apple's revenue or shift costs and risk to other parts of the ecosystem.

The evidence available on 29 February did not reveal how developers would elect between the terms, what share of users would adopt alternative marketplaces or payment methods, how fee costs would be distributed, or whether additional channels would increase safety incidents. Apple's broad Services figures showed the scale of a larger reporting segment, not the value of the App Store itself. The company had to make a design choice before it could observe those outcomes.

Decision prompt: Which package should Apple put into effect for the EU, and what measurable thresholds or information events should lead it to revisit the choice? How would your decision differ for a free app with very high installs, a subscription app using Apple IAP, and a small developer with few annual installs?

Sources and conventions

Facts and attributed positions are dated at or before 29 February 2024. Apple and stakeholder claims are labeled as such. "First annual install" and the CTF are described in Apple's announcement; the exact contractual counting rules are not modeled here. No Commission enforcement finding, Apple implementation outcome, later court decision or later term revision is included.

[S1]: [Apple Newsroom, 25 January 2024](#), "New Business Terms for Apps in the EU," and "Changes to iOS." [S2]: [Regulation \(EU\) 2022/1925 \(DMA\)](#), Articles 5(4), 6(4) and 6(12); [European Commission designation announcement, 6 September 2023](#). [S3]: [Apple FY2023 Form 10-K](#), Item 1 and Item 1A, pp. 4-5 and 12-14; MD&A, pp. 22-23; Note 2, pp. 34-35. Filed 3 November 2023. [S4]: [Spotify, 26 January 2024](#), paragraphs 89-98. Attributed stakeholder position. [S5]: [Google, "An Update on Google Play Billing in the EEA," 19 July 2022](#), paragraphs 229-235. Attributed competitor description.