The No-Nonsense Guide to App Monetization

Google AdMob

Contents

Introduction

A couple of years ago, Christoph Pferschy, an app developer from Austria, found himself struggling with his weight. He tried all sorts of diet and exercise plans, but nothing worked. One day, he stumbled across an article preaching the benefits of drinking water throughout the day. He gave it a shot and it worked – he lost the excess weight and also felt more energized.

What exactly does this have to do with app monetization?

Well, being an engineer, Christoph imagined how technology could help people all over the world realize the benefits of drinking more water. He got to work and in a few months designed and developed Hydro Coach, a water-intake tracker and reminder app.

At first, the app was just a fun side project, with barely 1,000 monthly downloads. But through Christoph's methodical analysis and tweaking, it was able to attract over 5,500 downloads a day, and cross the 2 million download mark. With more users, Christoph has monetized the app with ads and in-app purchases (IAP), turning Hydro Coach into a full-time job.

Whether you're running a billion-dollar business with thousands of employees or an army of one seeking extra time and extra income, if you're building an app, it's crucial to understand how to monetize it in the right way. Designed to provide an essential and comprehensive first look at app monetization, this guide will be especially helpful for developers who haven't launched their apps yet. But even if you've launched your app already, keep reading – there are still a lot of useful insights. You'll learn about:

• The seven primary app monetization models and the pros and cons for each
• How to choose the right monetization strategy
• Important considerations when implementing your monetization plan

We try to improve each user experiment segment with small and careful changes over time. For example, we've fine-tuned the algorithm that determines when, how and how often ads are displayed. We also invest in small things that mean a lot to our users, like being sure to say 'Thank you' after a user makes an in-app purchase and making the flow after a purchase as smooth as possible. It all adds up.

Christoph Pferschy
founder, Hydro Coach, Codium App Ideas
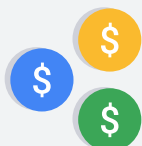
Understanding how to best monetize your app is important. It will help you drive revenue while providing the ideal app experiences for users.

Chapter 1

The seven app business models you need to know

The seven app business models you need to know

There are about seven ways you can make money from apps today.
The best method for you depends on several factors that we'll discuss in the next chapter. Until then, here's a snapshot of these monetization models:

1. Premium apps

2. Ads supported

3. Freemium

4. eCommerce

5. Subscription

6. In-app purchasing (IAP)

7. Hybrid: ads + in-app purchasing

(1) Premium apps

Description:

Premium apps charge users a fee to download and are usually downloaded through the app stores. For this method, you'll be able to set your own price, typically starting at $0.99.

Pros:

- Guaranteed revenue for every download means less stress over conversion rates[1] and impressions.[2]
- Setting a budget for marketing your app is often straightforward. Assuming you only have one paid app to promote, if your app costs $0.99, and the app stores take around $0.30, you make $0.69. Don't spend more than that to acquire a new app install.
- Premium apps usually have higher engagement rates. Since people are paying for your app, it's clear they really want what your app offers.

Possible cons:

- It's hard to compete with free apps. Major app stores are crowded with them, making it hard for premium apps to gain traction.
- Paying users usually have higher expectations. They may be less forgiving of an app not ready for prime time and expect a certain level of customer service.

Apps that work well with this model:

- Apps with a niche audience looking for a tailored solution. The app must have unique features to justify the download price and differentiate itself from the free competitors.
- Business-to-business apps can gain traction with this model – professionals purchase useful products that deliver a clear value to their business.

Example: Calendar 5
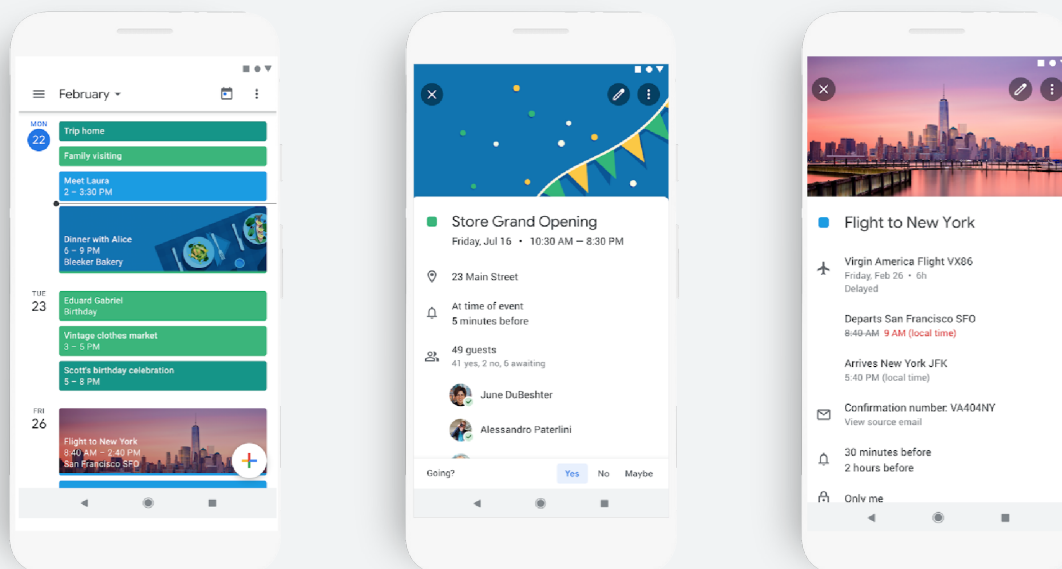
(2) Ads supported

Description:

In this monetization model, advertisers pay you to place advertisements in your app. With an ads-supported monetization platform, you'll be able to tailor which ads to show to your users based on their interests, location, demographics, and other selected signals. You could also work out an arrangement directly with advertisers or work with an ad network that has relationships with many advertisers, making it easy for you to start showing ads in your app right away.

Pros:

• This allows you to release your app to users for free. With enough people downloading and using your app, the revenue stream from ads can be significant.
• Ads have evolved to be more relevant and engaging, offering users a better experience as part of your app when designed properly.

• The diversity of ad formats has increased over the years, to your advantage. You can choose from multiple ad formats such as banner, interstitial, or rewarded video ads. App developers can easily choose the right ad format to fit the look and flow of the app.
• There are easy-to-implement tools and ad platforms (like AdMob) that let you start making money from ads right away while providing an integrated, relevant ad experience for your users.
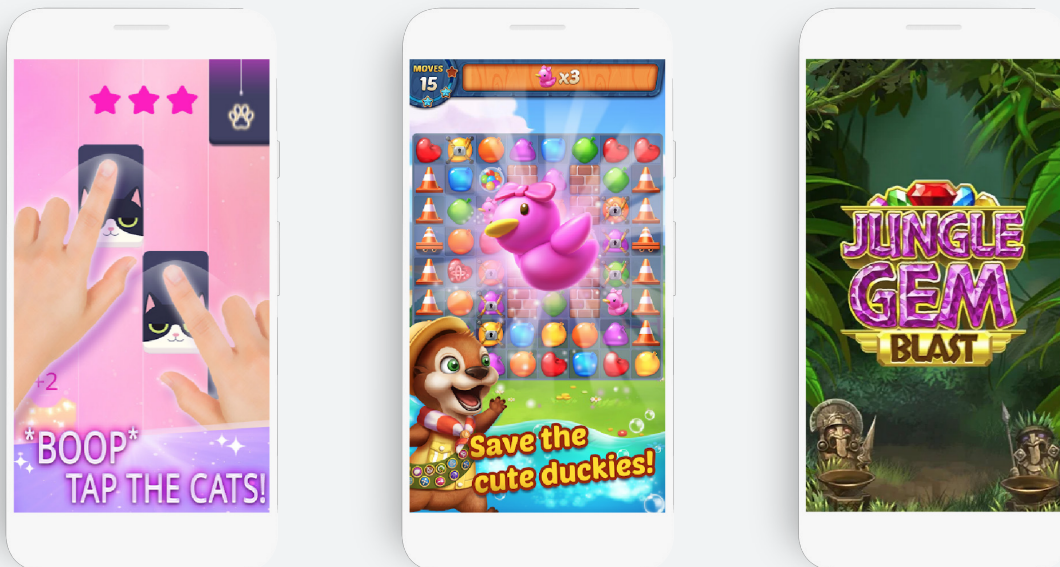
Possible cons:

Implementation is key! The placement and frequency of ads should work with the design of your app and never be bothersome to the user.

Apps that work well with this model:

All free apps

Example: CookApps[3]

Google AdMob

③ Freemium

Description:

Freemium apps are a combination of the free ad-supported model plus the paid premium model. A free version of the app is available for download, but users can choose to upgrade to a premium version of the app with more features for a fee. This model allows you attract a large group of users to the free version of your app, and drive revenue by offering premium services to the most engaged users.

Pros:

- It's easier to build up a large user base as the app is offered for free.
- Users are able to test your service before committing, which means less risk for them.
- For many app types, you'll be able to charge for the premium version monthly. Recurring revenue is incredibly useful for any business.

- This is a flexible model that can be adapted to almost any kind of app – gaming, utility, messaging, productivity and more.

Possible cons:

- Some apps find it difficult to offer both a compelling free version and a paid version. If you offer too many features for free, it will be challenging to convince your existing user base to pay for an upgrade. And if you don't offer enough for free, it'll be hard to get users to see your app's value.
- Paying users usually have higher expectations, which can pull your attention away from maintaining all areas of your app business.

Apps that work well with this model:

Ones with a clearly valuable free version and compelling perks in the paid version.

Example: Angry Birds 2
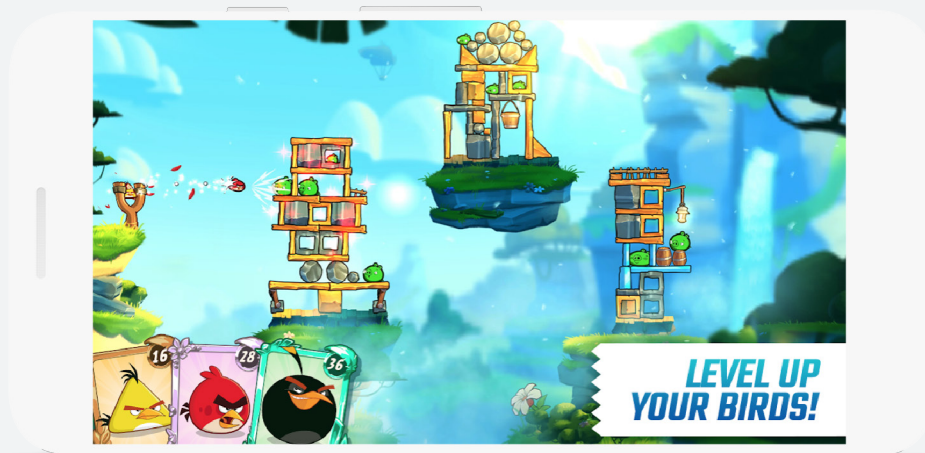
(4) eCommerce

Description:
This model is straightforward – you sell physical or virtual goods (such as coupons) through your app, which is free to download and acts as a portal for users to discover and purchase products.

Pros:
• The profit margins for eCommerce businesses are usually higher than traditional brick-and-mortar stores.
• eCommerce businesses are much easier and less risky to start than traditional brick-and-mortar stores.
• eCommerce blends with content brands really well. For example, if you write about fishing, selling relevant fishing gear directly to your audience is a logical way to monetize.
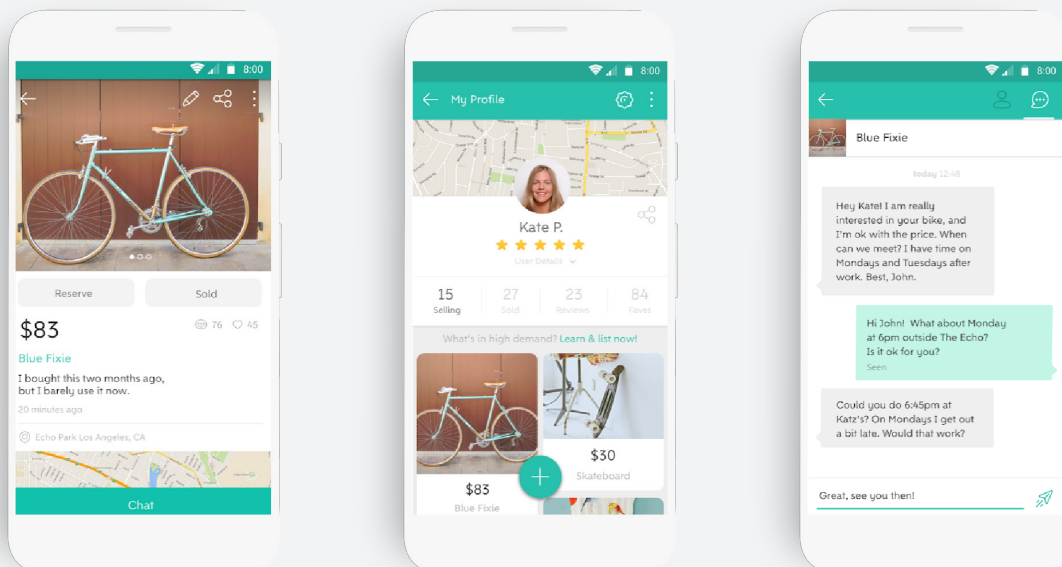
Possible cons:
• eCommerce profit margins are lower than all-digital models – storing and shipping physical products eats into profits.
• Large eCommerce marketplaces make it difficult for independent shopping apps to stand out.

Apps that work well with this model:
Apps that sell goods to specific audiences.

Example: Wallapop

(5) Subscription model

Description:
Similar to the freemium model that charges for more features in a paid version, this model charges for more content. Users are able to view a set amount of content for free and are then prompted to sign up for a paid subscription for continued access, or access to additional content.

Pros:
• It's easier to build up a large user base since the app is offered for free.
• As long as you keep your paying users happy, they'll continue subscribing.
• This model blends well with ads. You can still monetize your free users with ads, giving them access to premium content that is otherwise only available to paid users.

Possible cons:
• Like the freemium model, some apps find it difficult to offer both a compelling free version and a paid version of their app. It's not easy to test just how much content you should give away for free. For example, would your app make more money by offering just snippets of an article for free or would you make more money by allowing users to read a certain number of full articles a month for free?
• Paying users usually have higher expectations, which can pull your attention away from maintaining all areas of your app business. For paying users, bugs are less forgivable and customer support is often expected when things don't work properly. This could take resources away from rapidly releasing new features and iterating after they're already in users' hands.

Apps that work well with this model:
Content and media companies.

Example: Podbean podcast

⑥ In-app purchasing (IAP)

Description:

This monetization strategy relies on selling digital goods within your app. Usually the app itself is free for users, and relevant perks are offered at a fee. For example, a game that challenges users to guess a number in five tries could offer three extra guesses for a small fee.

Pros:

• This model makes it easy to build up a large user base since the app is offered for free.
• The profit margin for in-app purchases can be high because you're selling digital, not physical goods.
• You're able to provide a relevant user experience by offering in-app purchases at key moments. For example, you can offer additional lives right when someone needs them in a game.
• In-app purchases can be easily combined with other models.

Possible cons:

• Typically only 2-3% of users actually convert into purchasers within a game title. (Google AdMob will be launching a new feature soon that can identify non-paying users and show ads selectively. Please check back at the website to learn more about it.)
• App stores usually take a cut of the revenue for virtual goods (but not physical goods or services) purchased inside an app.

Apps that work well with this model:

Gaming apps are prime time for in-app purchases. This model could also work for other types of apps in creative ways. We'll discuss this later in chapter 3.

Example: Candy Crush Saga
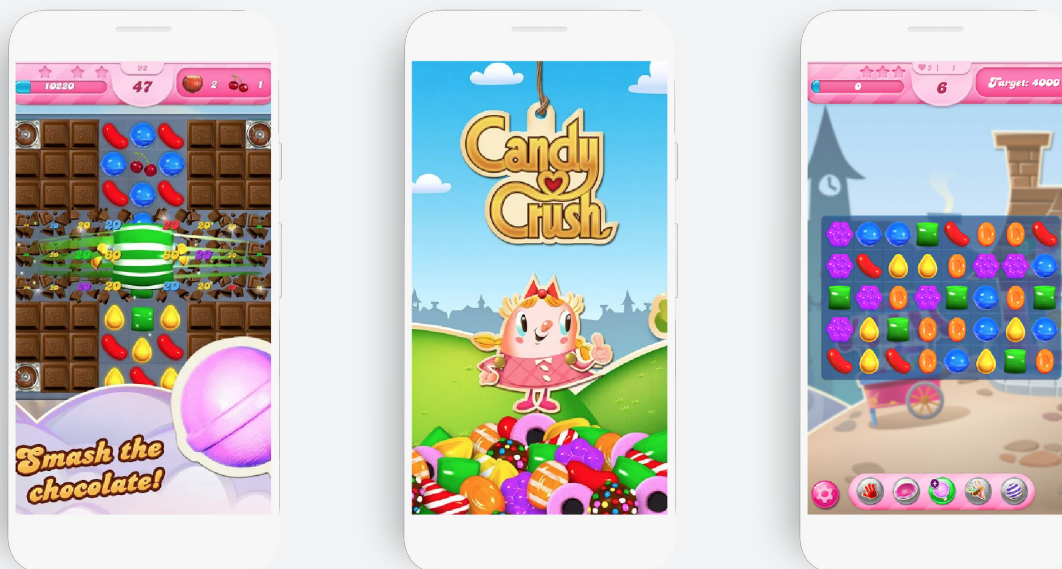
(7) Hybrid: ads + in-app purchasing

Description:

This model segments your audience and provides a tailored experience to each segment. You'll show in-app purchase offers to the segment who is most likely to buy and ads to the people who are unlikely to ever make in-app purchases.

Pros:

• There's potentially a big increase in revenue when switching to a hybrid model. After analyzing over 10,000 top Android apps, we found games can earn about 117% more revenue by adding ads to apps already using IAP.[4]
• Providing tailored experiences to different audience segments keeps users engaged.
• Just like the other free to download models, the hybrid model makes it easy to build up a large user base.

Possible con:

• Properly segmenting and connecting with users can be challenging.

Apps that work well with this model:

Apps that work well with this model: Many apps that already offer IAPs or already show ads can benefit from segmenting their users by implementing a hybrid monetization model.

AdMob's new smart segmentation feature, powered by machine learning, can help developers and publishers automatically segment users based on their purchase behavior. Learn more about the feature on the AdMob website.

Example: Avid.ly
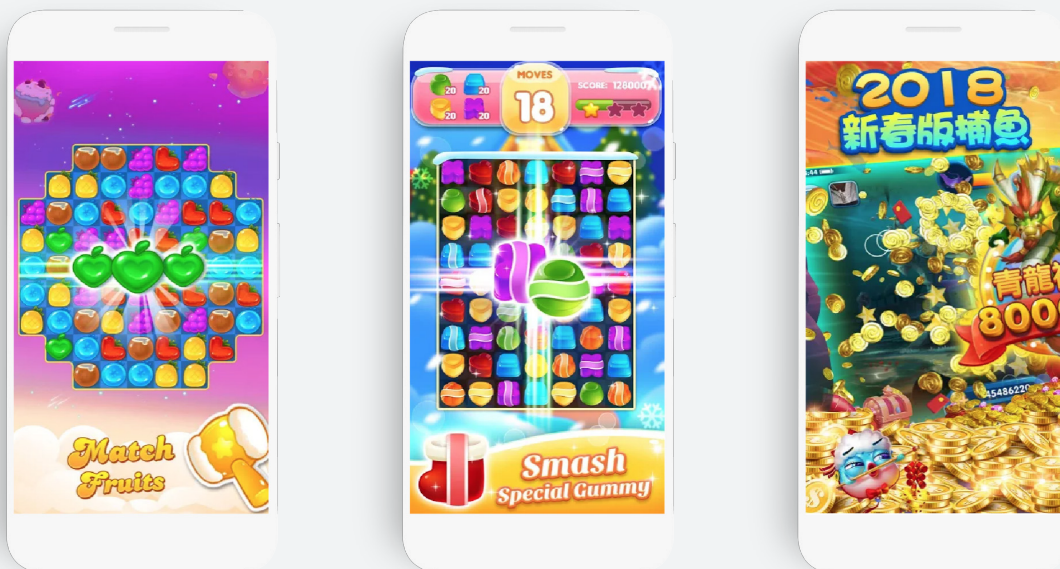
Chapter 2

Choosing the best business model for your app

Choosing the best business model for your app

Now that you know the options for monetizing your app, it's time to pick the right model. To do this, you'll need to consider your specific business. Some of the monetization options may not make sense for you, but there are often nuances worth trying out and experimenting with — bets that may pay off. With limited resources, even small tests eat up precious resources. As you consider your app monetization strategy, think through the following questions.

Who is your audience?
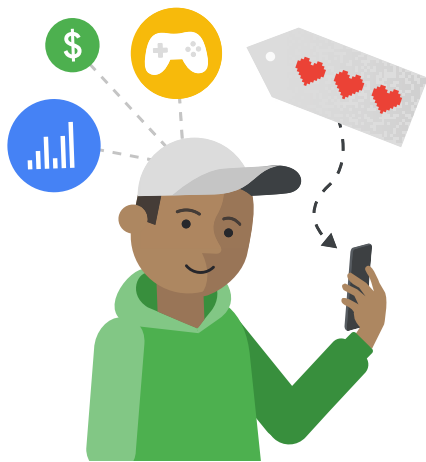
Try to be as specific as possible. The deeper you understand your audience — and the more you focus on users with particular behaviors — the more in tune you'll be with what they're willing to pay for and how they're willing to pay. For example, a 24-year-old casual gamer may never pay for an app. If your app is designed for users like him, you probably shouldn't make it premium. But he may be really engaged and willing to pay for an extra three lives at the end of a tough level in your game.

With the audience in this example, offering in-app purchases may be an easy decision to make. But knowing what digital good, at what price, and when to make the offer requires you to take time to model your specific users. This nuanced understanding of your audience can help you determine the best way to monetize your app.

What value does your app provide?
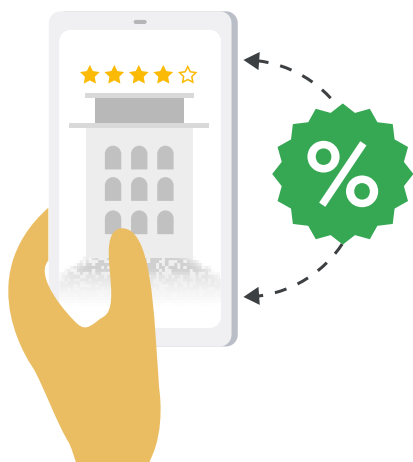
This may seem like a straightforward question, but the answer often gets taken for granted and muddled as you further develop your app. Another way to ask this is, "Why would someone use your app over the other options?" Pinpointing what makes your app unique and valuable is critical in determining how to make money from it.

For instance, if what makes your hotel booking app great is that the prices for a night's stay are the guaranteed cheapest, it doesn't make sense to charge for the app. People using your app are looking for discounts and are willing to pay at the point of booking. That's where your opportunity is to make money (for example, with a small percentage booking fee.

If instead your hotel booking app grants users access to the most exclusive and lavish hotel rooms in a city, the value isn't found at the point of booking

Choosing the best business model for your app

— it's found in access to your app's unique content. Paying upfront might make much more sense for this scenario.

In either case, identifying what your app does exceptionally or uniquely well can help you pinpoint the actual value you bring to your users. One easy and helpful exercise is to explain what your app can do to a friend or relative. If you find you're listing lots of "alsos" — features or multiple user scenarios — this can be a sign you need to better pinpoint the value for potential customers. This, in turn, helps you learn which model you should choose to make money.

How do you intend to promote your app?

Calculating how much profit you'll make will always require an understanding of how you'll promote your app.

Total Revenue − cost of goods − operating costs − promotion costs = profit

To know what your promotion options are, you have to understand your audience and where to best connect with them through your marketing. Are they searching for your product on Google? Are they on social media? Do they read blogs or news sources? Are there paid ways to promote your app on these channels?

For instance, we've found that search is especially effective for discovering technology, travel, and local apps. Through search engines, 43% of users found technology apps, 35% of users found travel apps, and 34% of users found local apps.

If the only way to market your app costs a fixed amount, you'll need to figure out a way to monetize more than that amount. This may affect the model you choose.

How people use search engines to discover apps:
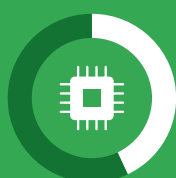
43%
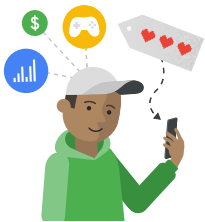found technology apps

35%
found travel apps

34%
found local apps

Example: Google Play Music

Google Play Music is a free, curated radio app for anything you want to hear. Let's take this app as an example and walk through how you'd think about three important questions to determine a clear monetization model for the app.

Who is your audience?

With such a large library of music, the target audience for this app is very big – anyone with a smartphone that listens to music and podcasts. A good first step is understanding the most engaged segment of the target audience. In this case, it's 18-29 year olds. A 2015 study by the Pew Research Center found that listening to music through a mobile app is especially popular amongst Americans between 18-29 years old. 64% of 18-29 year olds listened to music through an app, versus 39% of 30-49 year olds and 21% of those over 50 years old.
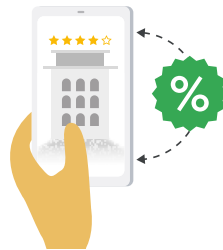
What value does your app provide?

The app's primary value is in the access to such a huge library of music. But, there are ways that songs can be packaged and distributed through different features to add even more value. Examples include the ability to:

• Access all of the songs on demand vs restricted access to curated radio playlists
• Discover and subscribe to podcasts
• Download music to enjoy when you're not connected to the internet
• Skip as many songs as you want
• Store up to 50,000 of your iTunes® songs and stream anywhere
• Listen on Android, iOS, and the web
• Get recommendations based on your musical taste

How do you intend to promote your app?

The available marketing tactics for this app won't be a limiting factor in choosing its monetization model. Because this app has mass appeal, there are a lot of free and paid ways to get the word out, including:

• Press
• Social media engagement
• Events marketing
• Paid advertising

Example: Google Play Music

Google Play's revenue model

Ad-supported Subscription Model
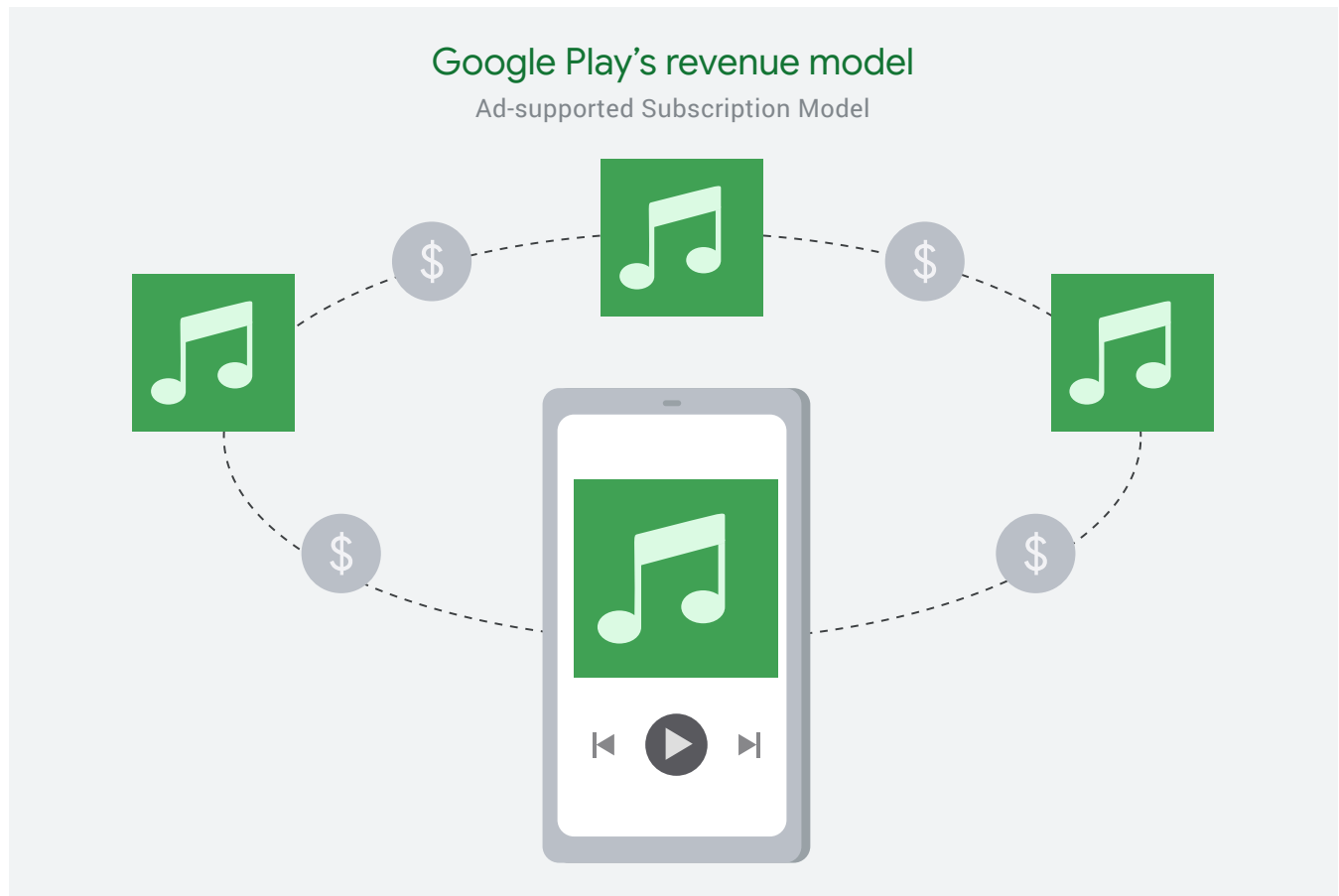
Why exactly?

As the potential audience for this product is so large, it's reasonable to make the app free to drive adoption by as many users as possible. But because the app provides such clear monetary value to users (the cost of a single song is usually at least $0.99), it also makes sense to offer a paid version of the app so they can listen to whatever song they want whenever they want. This makes the subscription model a very good monetization strategy for this app.

Once the model was chosen, the challenge became deciding what features should be free and which ones should be paid. The Google Play Music team determined that the most valuable part of the app is the ability to fully control what music you listen to. Check out their landing page to see a comprehensive list of the app's premium features.

To maintain the app's free services, Google Play Music monetizes the free version using ads.

Chapter 3

Things to keep in mind with your monetization plan

Things to keep in mind with your monetization plan

Make the most of data

Set up a good analytics tool in your app. Using data to understand and predict user behavior is critical to the success of your monetization strategy. Data can help reveal important information such as where users are most engaged in your app and where and why they're leaving. It can show you where most of your users are coming from and what new opportunities exist for you to make money.

Data can also help you run effective experiments and know with certainty if a new idea is the right one for your app.

Think globally about monetization

Apps have the potential to touch the lives of people from around the world, crossing borders of language and culture. If your analytics reveal that a sizeable percentage of your audience comes from a certain part of the world, you may want to work on localizing your app for that region. This doesn't only mean translating your app into another language. Different audiences may be accustomed to different monetization strategies. Doing research and running experiments is the best way to figure out what make sense for each market.

Check out our global market insight reports in our App Developer Business Kit to learn about app markets around the world.
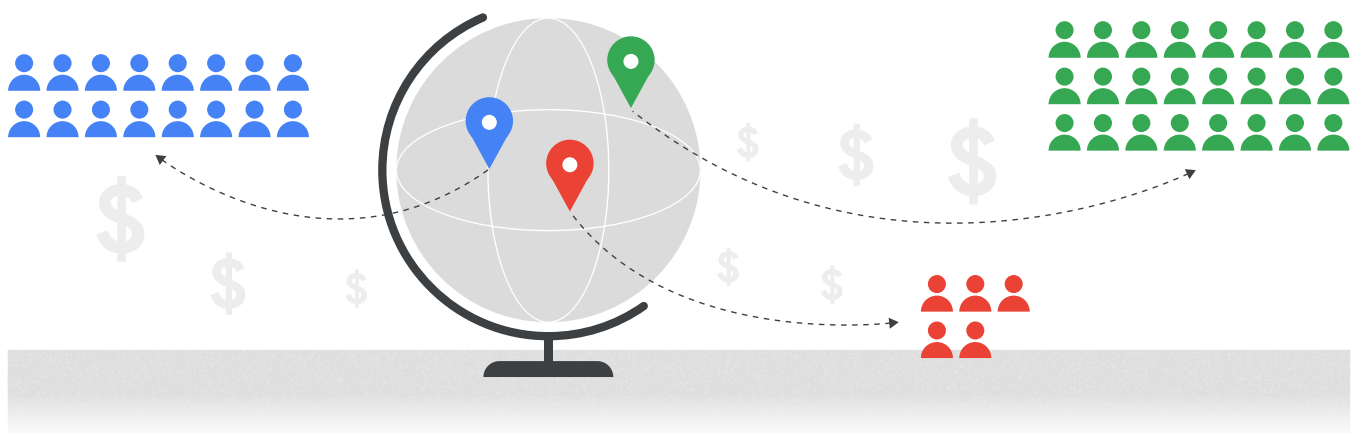
Things to keep in mind with your monetization plan

When it comes to ads, value always comes first

When placing ads in your app, it pays off to think through your app's experience from your users' perspective. The temptation to aggressively place advertisements won't prove profitable in the long term. Advertising should fit smoothly into the overall app experience and not interrupt its flow. The ad type you choose should depend on the type of content you're offering, your app's aesthetics, and how users engage with it. How often you show ads should be tested and retested. The more engaging your app is, the longer users will stay on it and the more likely they'll re-open it. This gives you more chances to monetize from them.

"
Advertising should fit smoothly into the overall app experience and not interrupt its flow.

Visit the AdMob Help Center to learn more about effective in-app ad placements such as <u>Banner Ads</u>.

Things to keep in mind with your monetization plan

IAPs aren't only for games

There are well-known examples of gaming apps that have been super successful selling digital goods, but games aren't the only type of apps that can benefit from in-app purchases. Some of the more surprising opportunities are with apps that creatively offer in-app purchases. For example,
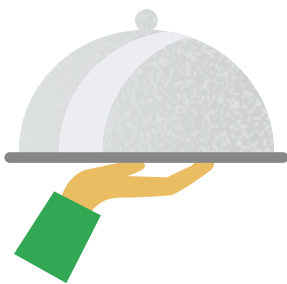
Yelp is integrated with GrubHub and charges restaurants when users order food through their app.

Match.com upsells users by promoting the in-app booking of additional perks like "Top Spots" which helps you stand out from the crowd so your profile gets more views.
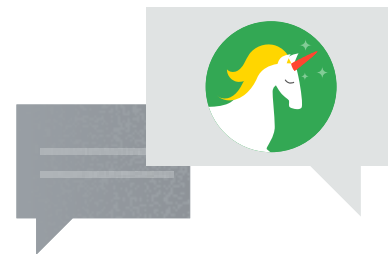
The popular Japanese messaging app Line charges users to customize their messages with premium digital goods, like stickers.

With IAPs, be sure to design a straightforward purchasing experience

It's a big deal when a user decides to make an in-app purchase. If the process isn't anything but easy, you could be losing potential business. This is another case for having an analytics platform set up in your app. Your analytics platform should track your users' screen flow and identify what percentage of users disengage with your app within the purchasing screens. This information can help you optimize the purchase experience and make it as seamless as possible.

Next Steps

We hope that this guide has provided some useful information to help you approach how you'd monetize your app. Now it's time to apply it. We recommend getting together with your team and re-visiting Chapter 2, "Choosing the best business model for your app." Covering the questions laid out in Chapter 2 should bring clarity as you develop a monetization plan.

We'd love to hear about your app monetization journey — share your progress or feedback with us on Twitter. For more information on user engagement and general app development best practices, check out our YouTube channel and blog. Best of luck!

ABOUT GOOGLE ADMOB:

Google AdMob is a leading mobile advertising platform, trusted by more than 650,000 apps worldwide. Since 2006, AdMob has helped developers grow successful app businesses with rich ad formats, ad mediation and industry-leading fill rates. With Google Analytics built into AdMob directly, developers can measure app performance and segment users to monetize intelligently.

Sources:
1 Conversion rate: In ads, conversion rate means the percentage of clicks that convert to a desired action.
2 Impressions: An ad impression is reported whenever an individual ad is displayed in your app website.
3 Vision Mobile, App Economy Forecasts 2014–17, December 2014
4 Google AdMob, A Winning Combination, How using in-app purchases and ads together can maximize mobile game revenue, December 2015