ChromeInfo Technologies

APP REVENUE MODELS IN THE MOBILE ONLY WORLD

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This whitepaper helps Entrepreneurs and Mobile App Developers earn revenues from their mobile apps in line with the value they create for the users.

The golden rule of marketing states follow the attention. Mobile apps are commanding more attention from users by the day. It is only natural that users will spend more money, where they are spending their time.

How can you build more value for your users? How can you monetize it? Should you use only one revenue model or more?

The white paper will help you answer these questions and more. Dive in to take a closer look.

White paper highlights:

- Recognizing the growth of mobile apps and sizing the opportunity
- A single framework to understand every possible revenue model for your app
- How to decide between different revenue models and position your app for maximum profit
- Difference between in-app Purchases and display advertising models
- Sponsorships as an innovative way to make money from your mobile app

Contents

- Gary Vaynerchuk

How to make the most money from your app?

You stand to make most money from your mobile app by delivering the most value to your users. While deciding the best revenue model or monetization strategy for your mobile app, it's important to consider the contemporary worldview and understand the underlying opportunities and challenges in the marketplace.
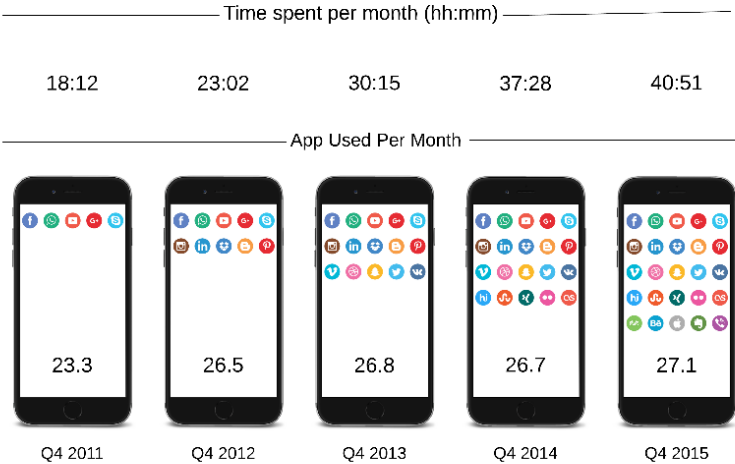
The first mobile app store was introduced by Apple just seven years ago, and since then apps have engulfed the world and become the primary way for a brand to communicate with its customers. This popularity has generated an app economy worth multi billions of dollars.

We are well into a Mobile First World, soon to be a Mobile Only World. In a mobile only world, apps that succeed will be radically different from the ones that exist today. As figure 1 indicates that the mobile and apps have taken over the desktop users and this new rise in the market is expected to grow as we progress.

Number of Global Users Millions
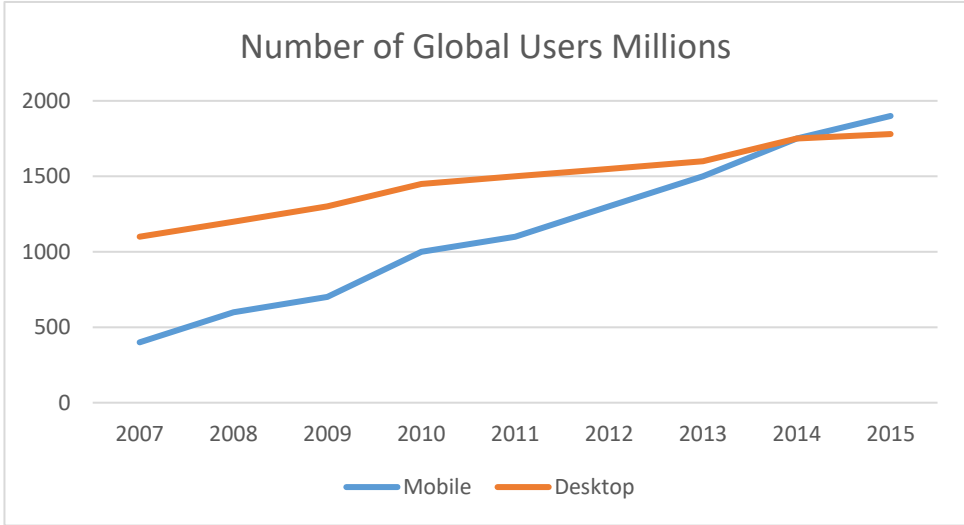
Not only there is an increase in the number of users going mobile, but also the time spent by an average user on mobile apps has increased. Figure 2 gives an illustration about how the mobile usage statistics in US.

Mobile App Usage by US Smartphone Users

Time spent per month (hh:mm)				
18:12	23:02	30:15	37:28	40:51

App Used Per Month				
23.3	26.5	26.8	26.7	27.1
Q4 2011	Q4 2012	Q4 2013	Q4 2014	Q4 2015

Need of The Hour- Build Relationships, Not Reach

A brand is not so much about rational arguments but the way the company resonates with people emotionally
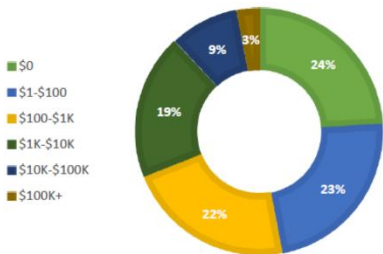
STEVE JOBS

In a word where everyone and their mothers are building a mobile app, the apps with maximum user attention are best positioned to win. Lately, Personalization and building relationships with users has been the key strategy employed by mobile apps to acquire most users, and generate maximum revenue.

It takes a dedicated amount of time and energy to build good, strong, lasting business relationships today. Consistency, constant engagement and exclusivity are essential for finding great people and growing relationships with them.

The App Economy Is A Winner Takes All Games

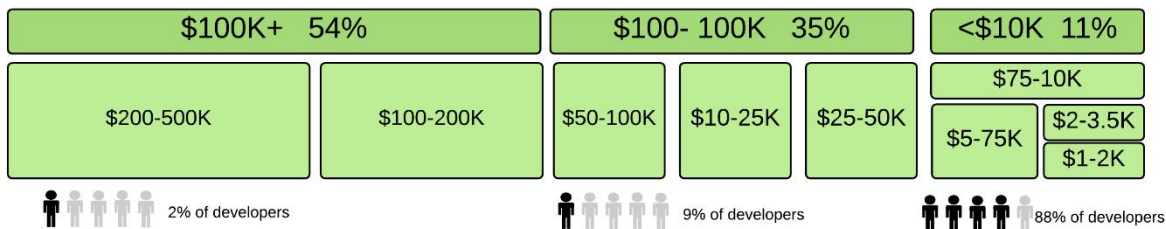How many app business are suistanable?

MONTHLY APP REVENUE

- $0
- $1-$100
- $100-$1K
- $1K-$10K
- $10K-$100K
- $100K+

24%
23%
22%
19%
9%
3%

Revenue distribution - Android vs. iOS

Primary Platform

iOS: 35% | 15% | 23% | 16% | 11%

Android: 49% | 15% | 20% | 10% | 6%

0%   20%   40%   60%   80%   100%

<$100 $100-500 $500-5K $5K-25K $25K+

1.6% of developer have an app earning >$500 per month.
Together they earn multiplies of the other 98.4% combined

How app revenue are split

$100K+ 54%		$100- 100K 35%			<$10K 11%
$200-500K	$100-200K	$50-100K	$10-25K	$25-50K	$75-10K / $5-75K / $2-3.5K / $1-2K

2% of developers   9% of developers   88% of developers

As illustrated in the infographic above, we can clearly see that the top 2% of app developers claim about 54% of all app revenues. So, the question of the hour is how do you join that alluring 2%? Have a well-thought out plan to profit from your app. And hash this out before your app launches. Think of the apps that you visit frequently, find out what makes them tick and use your insights to inspire your own product roadmap. Here are a few ways to set your mobile app for maximum success.

- Know your customers well. Figure 3 below should help to clarify the different types of data that you must strive to collect, hence increasing the value of your mobile app.
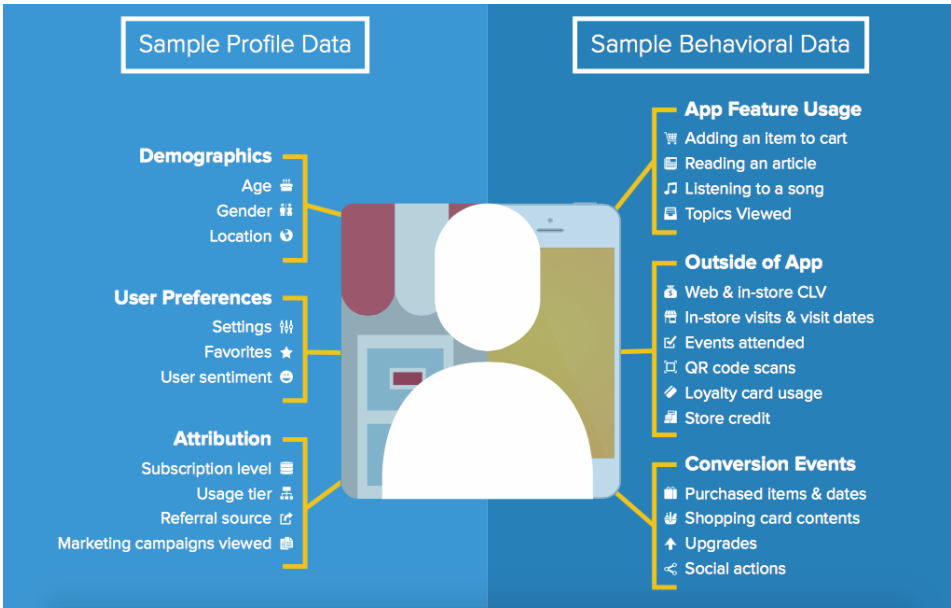

- Use the data you collect to create communities and connect people that show the same behavior. People are social animals. We love to make new connections and know more about people around us.

- Use personalized messages for each of the user segment you create this way. Leverage push messages and in-app messaging. To keep users engaged, run these campaigns across channels, and consider going outside your app, including websites and physical stores.
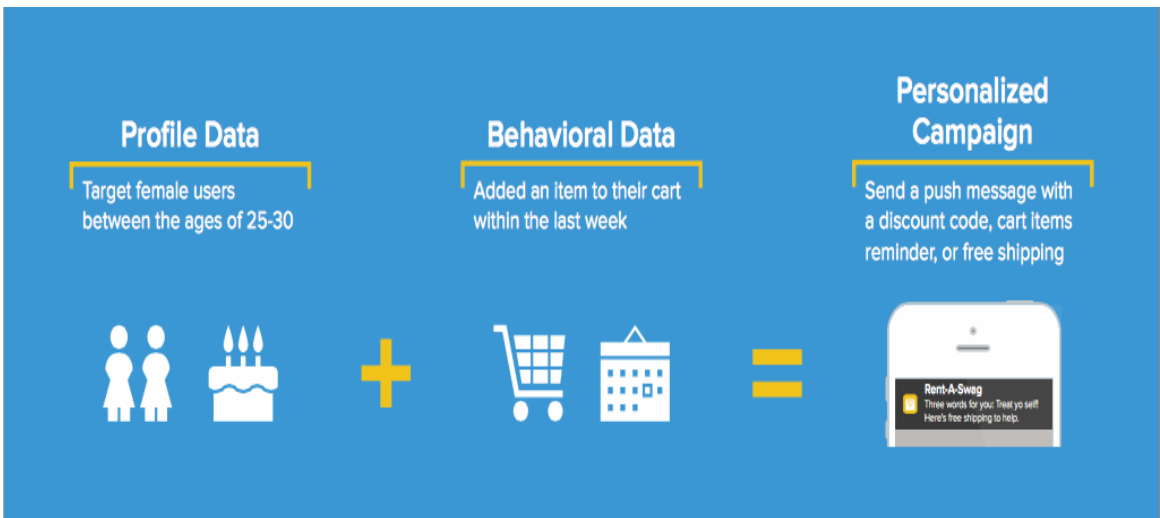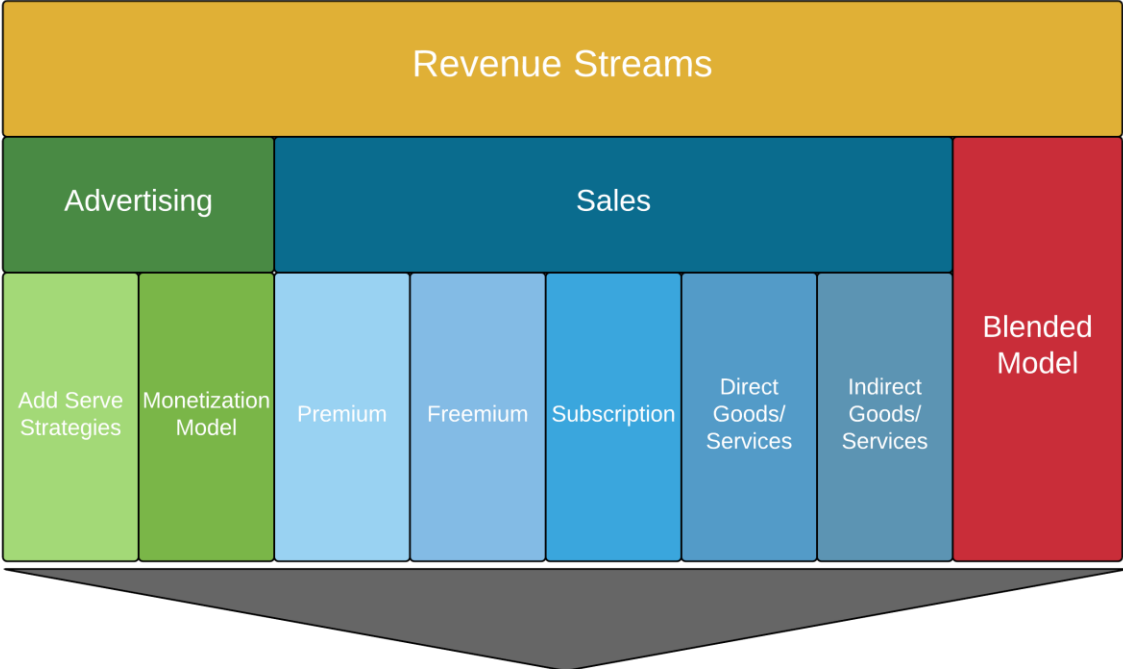

These techniques should help you build innate value in the app, which you can monetize using one or more of the revenue models we outline in the following sections.

Choosing the Correct Revenue Model

People who use your mobile app are either your direct customers, paying you for the value your app delivers in their lives. Or you can use them as part of the product itself to attract advertisers. The section illustrates the nuances of each of the two strategies, and helps you identify the right model for your mobile app.

THE FRAMEWORK

| Revenue Streams							
Advertising		Sales					Blended Model
Add Serve Strategies	Monetization Model	Premium	Freemium	Subscription	Direct Goods/ Services	Indirect Goods/ Services	

Advertising

You'll find the advertising model particularly attractive if you're building a gaming app. Gaming apps comprised **61% of the total ad spend** on mobile apps in the second quarter of 2016. Gaming apps command anywhere between 50% to 200% premium over apps in any other category.

In order to make the most money using ads, you need to understand the three different types of ad units on mobile and how exactly they differ from each other.

Type of Ad Units

The different types of mobile ads vary in size, impact and complexity from an advertiser's point of view. Here is a side by side image of the three types of ad units you can serve on your mobile app.
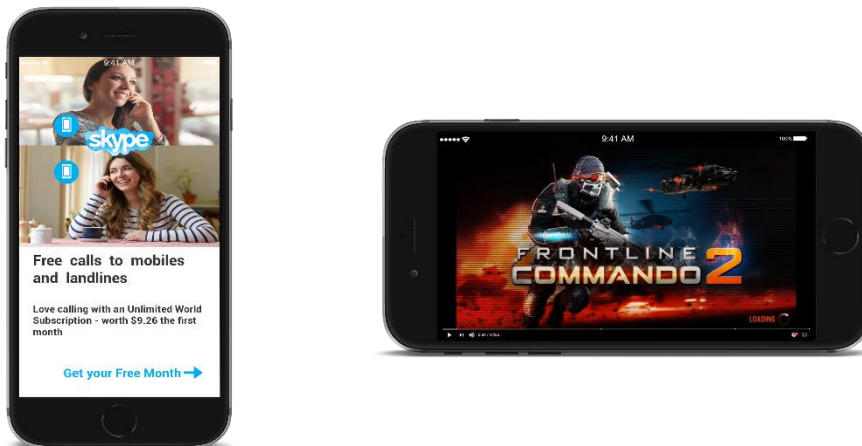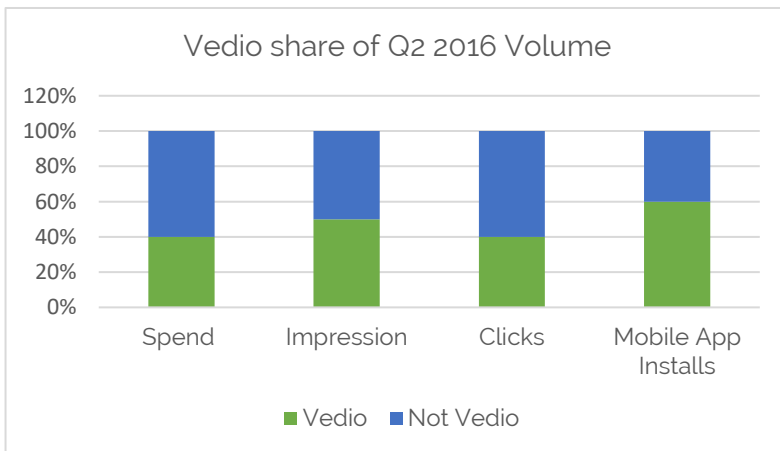
Banner Ad
This is the simplest ad unit and runs as a 320x50 bar, across the width of your smartphone. Since it interrupts user the least, it also has the minimum chance at converting the user. Naturally, advertiser pay little for this type of ad unit and can easily be the least productive for you, as a developer or publisher, to run.

Interstitial Ad
The interstitial ad units interrupt the user to a higher degree. They take up the entire mobile screen and are very common in games. Since they take up more real estate on your mobile screen, they are more effective at displaying the advertising message and converting the user. The mobile screen is so small, that it is very common for users to click on advertisement while trying to close the ad unit.
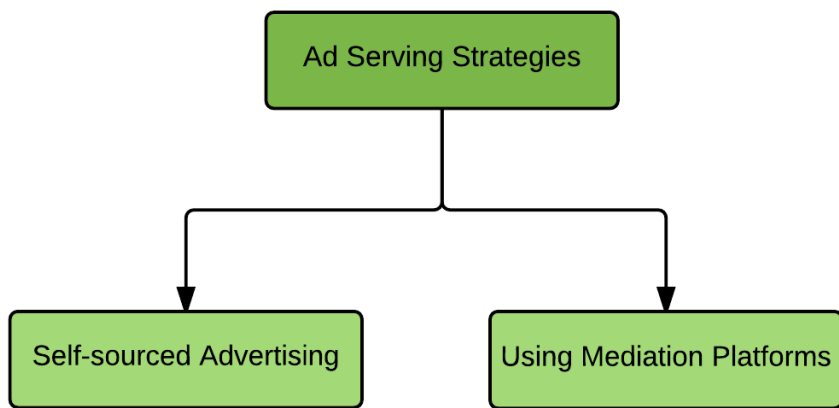
Video ads
Video ads make up a very small portion of the total spend on mobile ads, but is a growing trend across the web and should continue to grow in the years to come. These again take up the entire screen, and you can compare these to the pre-roll ads on YouTube. Video ads already command a premium cost-per-click rate over other ad formats.

Vedio share of Q2 2016 Volume

	Spend	Impression	Clicks	Mobile App Installs
Vedio	40%	50%	40%	60%
Not Vedio	60%	50%	60%	40%

Legend: ■ Vedio ■ Not Vedio

Ad Serve Strategies

There are two ways you can serve ads.

```
┌─────────────────────────┐
│  Ad Serving Strategies  │
└─────────────────────────┘
         │
    ┌────┴────┐
    │         │
    ▼         ▼
┌──────────────────────┐   ┌──────────────────────────┐
│ Self-sourced         │   │ Using Mediation          │
│ Advertising          │   │ Platforms                │
└──────────────────────┘   └──────────────────────────┘
```

Self-sourced Advertising

You can directly tie up with advertisers and source advertisements yourself, using the self-sourced advertising model. This strategy can work well for you if you're targeting a unique niche set of audience that is particularly attractive to certain groups of advertisers. For example, you can get L'oreal to advertise on your "Uber for Beauty Salons" apps, if you're able to get enough users. The key to make this strategy work is a rolodex of advertisers, more than anything else.

Using Mediation Platforms

Alternately, you can make use of one or more mediation platforms available. There are two types of mediation platforms – ad exchanges and ad networks. Ad exchanges facilitate auctions, where you can find many advertisers to bid on your ad space. An ad network, on the other hand, assumes the responsibility to sell the ad space to the advertisers for you. Naturally, ad networks leave you with a smaller pie of the total revenues generated out of the transaction.

Examples of mobile ad exchanges include MoPub, DoubleClick and OpenX. Examples of ad networks include AdMob, InMobi and Juice Mobile.

A mediation platform allows you to fill more ad space, thus ensuring a higher click through rate and more revenues. Also, they help you keep the marketing costs low and make the marketplace more efficient since you don't need to manage relationships with advertisers on your own. Also, by virtue of the diversity of advertisers and ad units on the platform, such a platform offers better targeting to the advertisers, regardless of the country or target demographic.

The advertising rates can vary from one ad network to another. Google's AdMob consistently outshines across all mobile ad networks, with InMobi as a distant second for iOS devices.
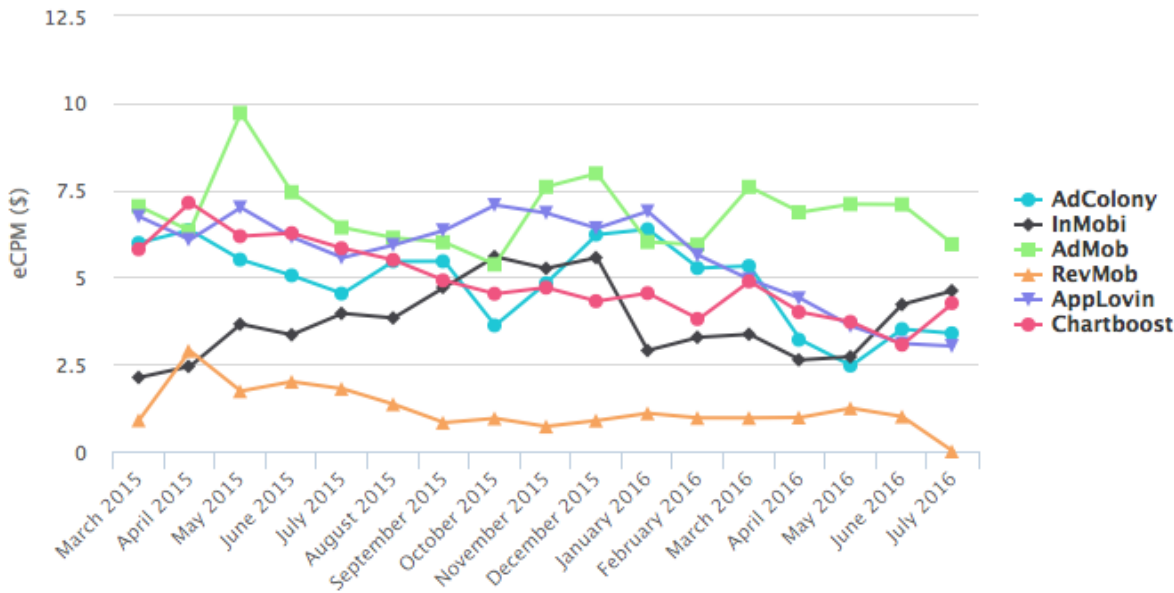
The competition is much fierce in Android.
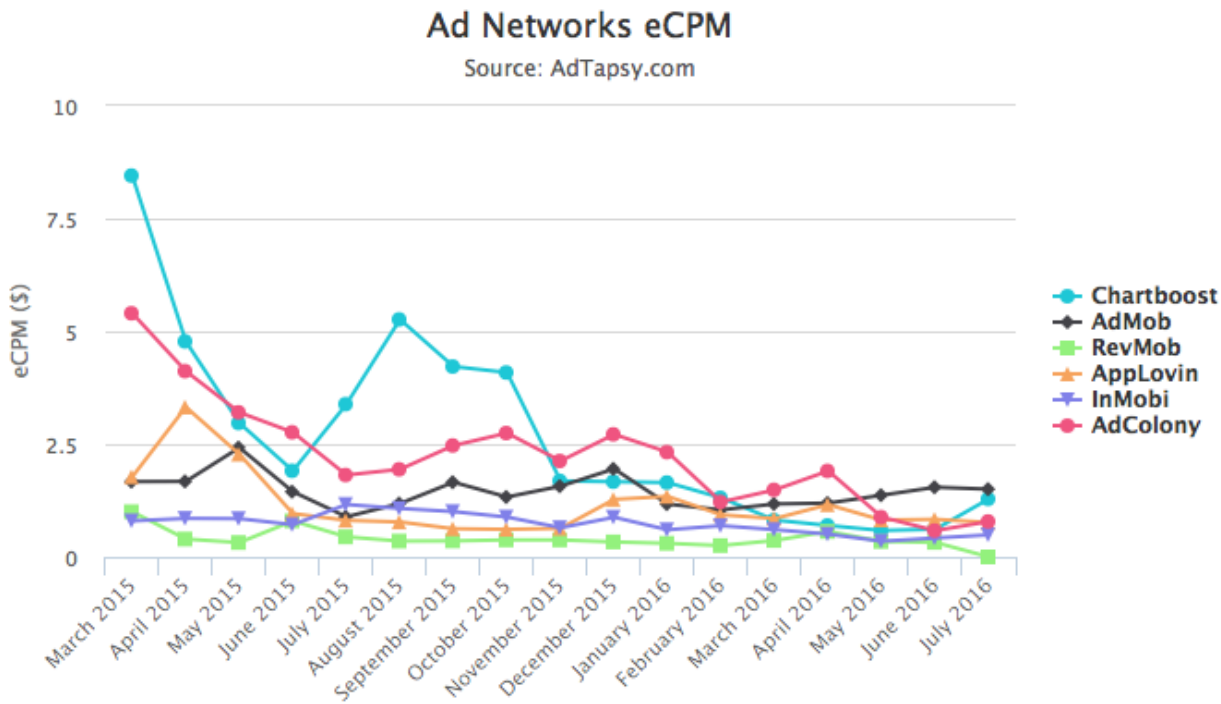
CPM Rates for Android by different Ad Networks.

In exchange of showing advertisements on your mobile app, you can earn money using one of the three monetization models:

Revenue-Per-Impression (RPM)

In this method, an advertiser pays you per the number of impressions or displays of his advertisement unit grouped by the thousands. In fact, the method, PPM, owes its name to the word Mille that means thousand in Roman.

Here's a side by side comparison of the average revenue per thousand impression (RPM) you can hope to generate from the three mobile ad formats above.

Advertising Model	Android	iOS
Banner	$0.20 - $2.00	$0.15 - $1.50
Interstitials	$3.00 - $5.00	$2.00 - $4.00

iOS ads usually command a 30% premium over their android counterparts. This is because apple users are more affluent and have a larger share of wallet that they can spend on discretionary expenses, than android users. If you're considering advertising as a revenue model, this is an important input to decide if you should build an iPhone or an Android app.

Revenue-Per-Click (RPC)

The Pay-Per-Click model requires the advertiser to pay for every click on the advertisement unit. Any mediation platform, or ad network you might engage with, usually implement an auction for the cost per click.s

You might want to consider PPM Campaigns since it's easier to collect views than get user to click on the ads. The flipside, however, is that your app needs to be vastly popular for you to be able to make decent money from the application. While PPC might sound riskier to you, it can result in significantly higher revenue if the product being advertised in your app is relevant to your mobile app.

Revenue-Per-Install (RPI)

In this model, you only make money if the user clicks on the ad you serve in the mobile app, and goes ahead to download the app being advertised. Such a model works best for advertisers in the same, or related industry, as your mobile app. You'll need to carefully select the advertiser here, so that you don't end up wasting valuable real-estate on your mobile app.

Vedio share of Q2 2016 Volume by Operating System
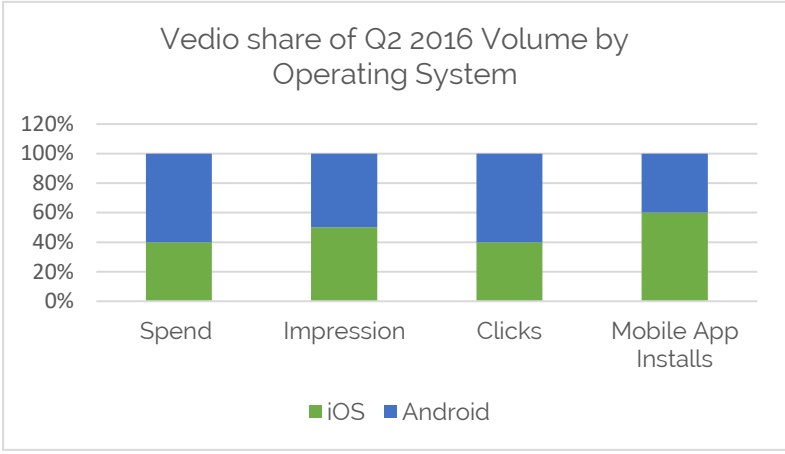
	CPM Q2 2016	CPC Q2 2016	Cost Per Install Q2 2016
Android	$2.50	$0.18	$1.54
iOS	$4.25	$0.40	$2.54

An Alternate Monetization Model: Sponsorships

Of all the app business models listed in this post, this is probably the newest entrant in the mobile world. Sponsorship entails partnering with advertisers, who provide your users with rewards for completing certain in-app actions. Sponsorship is led by a specific enterprise which funds an app or curated content that has some degree or affiliation and direct (or indirect) benefit to the enterprise.

In this model, brands and agencies pay to be part of an incentive system. Your app earns money by taking a share of the revenue from rewards that are redeemed. Incorporating advertising into your app, this way, enhances your app's ability to consistently engage users. The services/app are freely available and the developer is compensated by the sponsor for the development of the discussed product.

An early adopter of this app business model is RunKeeper. The app has adopted new formats for advertisements served inside the app. The partnerships page on the website lists native display, sponsored workouts and custom challenges that sponsors can choose to back. This strategy allows RunKeeper to monetize their app without disrupting their user experience with banner ads.

Sponsorship is an innovative business model which can be adapted across verticals. You tap into a revenue source which is, otherwise, unavailable. A clever design of the reward system ensures an amazing experience for both your sponsors, as well as the users. App developers and marketers share a symbiotic relationship as advertisers get more ad space while users benefit from free promos. This method of advertising can be pushed to fuel your app's conversion funnels.

The reward system is a twin-edged sword, if you plan to go ahead with the business model. The relative naivety of the business model also poses a high risk proposition to try and control. As a mobile marketer, you need to be careful about what actions you incentivize within the app. You might also be forced to bend the product roadmap including app features, functions and design in favor of the sponsor's requirements and agenda. Sponsorship is usually a one-time agreement after which the model might lose its significance altogether.

Sales
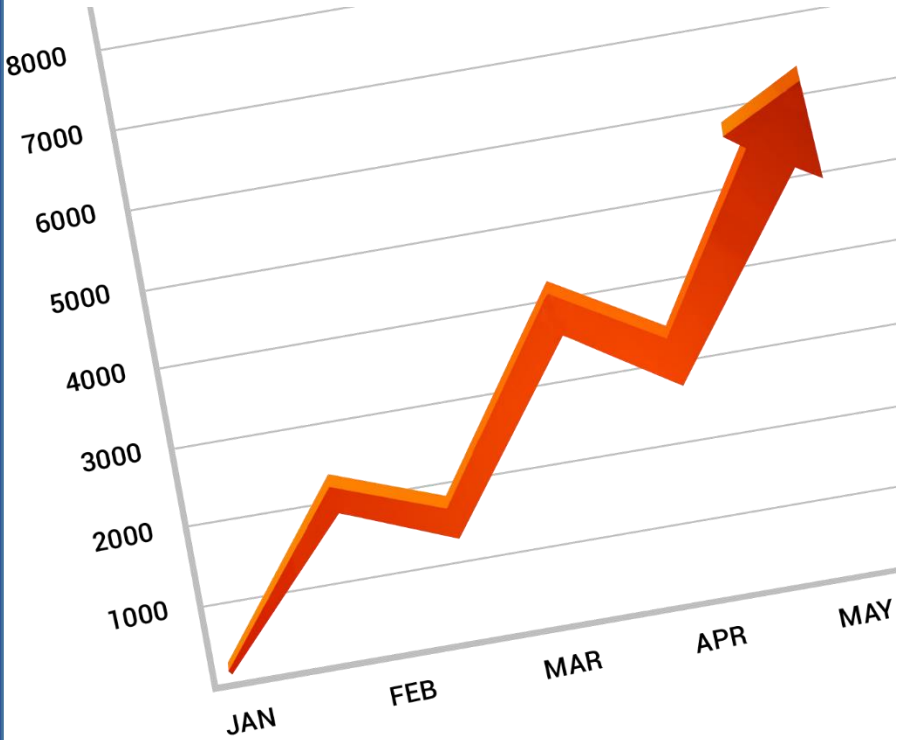
The models in this category generate revenue directly through purchases made by the consumer within your app. A lot of focus and attention is given to this part of revenue models as this is the area most apps want to boast their usage on. This has led to a variety of instruments used to facilitate the consumer to pay.

Paid Apps

This model charges your users upfront to purchase your app. For this method to work, you need to invest in marketing your app and create a brand. If you already have a recognized brand, the model will make even more sense. You can create a brand by getting influencers and promoters to use your app.

You can also become a sponsor of another popular app, meaning that their users will see your ad and app exclusively. Mobile gaming apps such as Minecraft, The Game of LIFE and Geometry Dash are examples of premium apps that profit without IAPs or in-app ads.

Freemium has been the most popular way to monetize an app for the last 2 years. The model allows you to offer the app for free to a large base of users, but also needs you to hide a few high end features of the app behind a paywall. Users need to make a one-time purchase or subscribe to avail these added benefits from the app.

You can gauge the popularity of the model by quickly running yourself through the most popular apps. Everything from music applications like Spotify to dating apps like Tinder use the freemium model. A freemium model gives more autonomy to your users to find out if they like the product. If they find themselves using it frequently, it is very likely that they spend on the premium, and yet indispensable, features of your app.

Let's dive deeper into one of the world's largest mobile app success, Angry Birds. Thanks to the success, the mobile app has found numerous other monetization models, but the freemium model is one that's uniquely built into the mobile app.

The Rovio team created Angry Birds first in 2009, for iOS. The team released a free version initially, but needed users to pay to unlock premium features that included additional power-ups to help you solve level more easily and additional levels. This allowed Rovio to build a loyal base of users for the game. Once app users have conquered a few levels, they're engaged enough to pay for the full-fledged version for more hours of fun.

One of the big reasons why Rovio decided to use the freemium model for the app was to reduce piracy. The users who don't want to pay to download the game could try it for free. They also invested continuously in retaining the user and keeping the game current by introducing new characters and levels in its free updates.
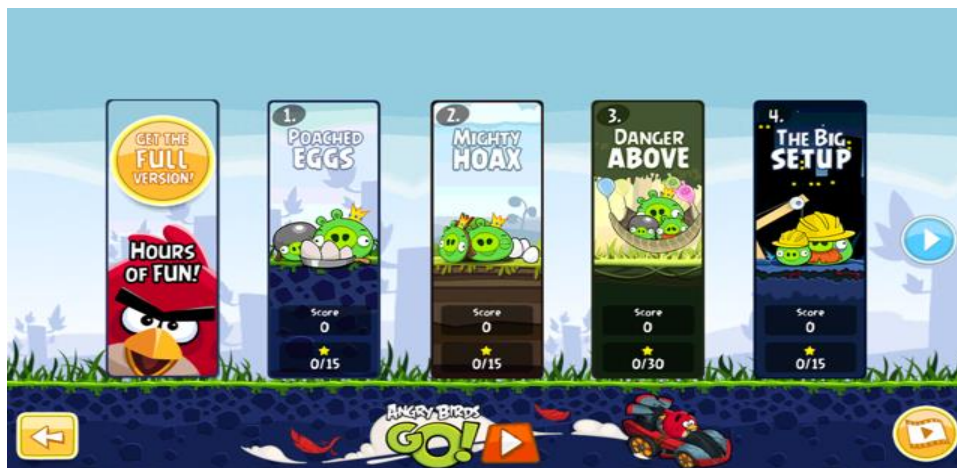
Angry birds spells out things that you should consider before selecting the freemium model for the app. The model makes it easy for you to build an addictive app, get people hooked and grow a large user base. People like to "try before they buy". Also, people respect the freedom to choose if they like your app and are more likely to voice their support for you, if you're not charging them up front.

However, if you offer fewer features than is required to enjoy your app, in the free version, app churn will quickly grow through the roof. On the flipside, if you offer too many features for free, it will be difficult to convince the users to pay for an upgrade. Finally, like angry birds, it requires consistent investment in app development to keep users engaged and keep coming back for more.

In the subscription model, users are allowed to download the app for free and after a period they are charged a small yearly or monthly fee in order to continue using the app.

One of the best reasons to consider a subscription model is that you stand to see a much higher amount of average revenue per user (ARPU). The model also makes sense if your app has a recurring utility, that is, users will wants to use your app on a regular basis. The model leverages a psychological phenomenon called the Sunk Costs Fallacy. Once users have paid for the subscription, they are more likely to continue using your app because they feel that they have already invested significant time and money into it. People forget cancelling their subscriptions with Apple Music and Amazon Prime, even when they have stopped listening to as much music or buying stuff for themselves.

A subscription-based mobile app will generate a certain amount of revenue per user per month, and the more users you get, your cash flow grows proportionally. It's easier to plan your business with a reliable source of steady income, every month. The auto-renewals ensure lower churn and a regular, ongoing revenue stream due to auto renewals.

In the subscription model, it's of paramount importance to curate and create high-quality content consistently. After all, that's what the users are paying for. This model cannot be applied blindly to all verticals without giving thought as it works for certain types of revenues only.

A great example of a mobile app using the subscription model is Lumosity. The Lumosity app allows users to get regular brain exercises with over 50 different brain exercises designed by cognitive psychologists. It offers a monthly subscription for $11.99 per month or an annual subscription for $59.99. With a 5-star rating from over 93,000 users, clearly Lumosity is a great example of a phenomenal success in the world of subscription apps.

In-App Purchases (IAP):

With this approach, you offer the app or content service for free and make money when users buy goods or services inside the app. This model is also commonly known as In-App Purchases (IAP). Examples of goods and services include songs, movie, virtual currency, and airtime top-ups.
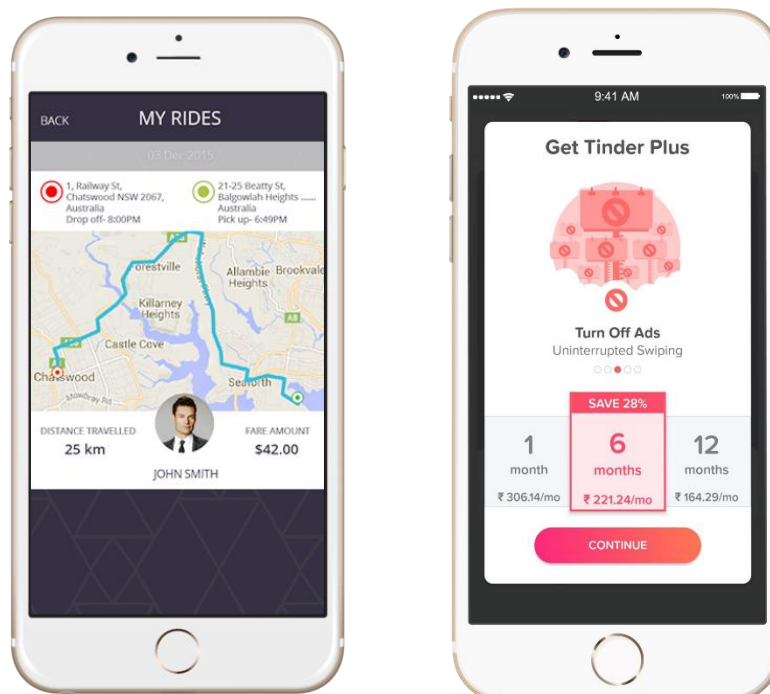
The business model requires you to manage supply chain for products on top of developing the app. You need to manage procurement by actively managing relationships with your suppliers. The cost of the item can be broken down into raw materials, packaging and shipping. Depending upon your location, you may also incur the cost of currency conversion and import / export duty. Your financial statement will include line items like Cost of goods sold, packaging, sub-assemblies and transportation.

When dealing with direct goods and services, you share goals with the supply chain team. Those goals might objectives like lowering costs or decreasing waste. While these goals are top of mind and important, they aren't your only priorities with respect to direct goods and services. Other important considerations might include reducing lead times, managing inventory, risk management and innovation.

Users gain in such a model since their experience is not inhibited by advertisements. Users are able to download and use the app or content service for free. The app in itself can act as a marketing, distribution and payment agent for the goods and services you sell on the platform. Other key features include one-click checkout for consumers and data security and integrity to store personal data for users.

More often than not the revenue may not be generated from the app itself but rather from the sale of goods and services. The success of the model relies on the goods and services sold. These should be enticing enough for users to make purchases.

All Uber for X models use this strategy to make money. ChromeInfo specializes in building mobile apps that use this monetization model.
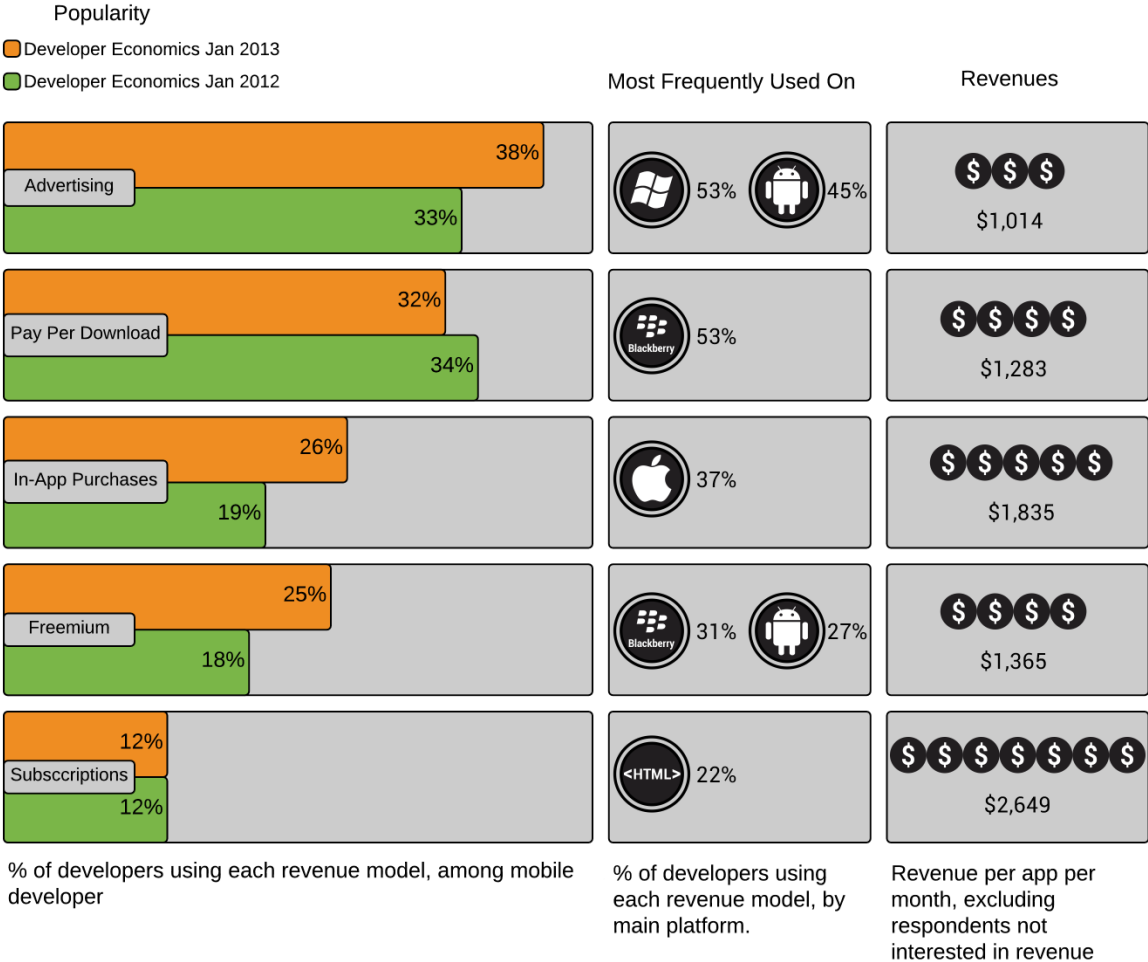
In summary, your mobile app monetization model is only an extension over the primary purpose and utility of your app. When deciding a mobile app business model, you need to consider why users are using it in the first place and go from there. You need to have a deep and solid understanding of what attracts your customers and motivates them to take action. This will always require a deep dive into market research and a thorough understanding of your buyer persona.

In 2014, Developer Economics published a chart (featured below), which maps the popularity and revenues for the top 5 bankable app business models (excluding sponsorships since it's pretty new and niche). Interestingly, a striking feature of this - advertising is the most popular app monetization strategy, but subscriptions are the most profitable. As the app landscape progresses and becomes more complex and sophisticated, we should expect to see a shift in the trend towards blended models. For instance, you can start with a "free, but with ads" model and then offer users a paid upgrade to an ad-free version, which is a "freemium" approach.

Advertising most popular revenue model but subscription pays better

Popularity
- Developer Economics Jan 2013
- Developer Economics Jan 2012

Most Frequently Used On   Revenues

Advertising	38% / 33%	53% / 45%	$1,014
Pay Per Download	32% / 34%	Blackberry 53%	$1,283
In-App Purchases	26% / 19%	37%	$1,835
Freemium	25% / 18%	Blackberry 31% / 27%	$1,365
Subsccriptions	12% / 12%	<HTML> 22%	$2,649

% of developers using each revenue model, among mobile developer

% of developers using each revenue model, by main platform.

Revenue per app per month, excluding respondents not interested in revenue

Your user acquisition and retention strategies will strongly depend on the monetization model you choose. If your app is meant to grow awareness and engagement with your brand, you may not want

to include in-app advertising. This is because the app itself is earning its keep by giving your customers new ways to find and interact with your business. On the other hand, if you are building a mobile game, you'll need a consistent steady growth in your user base and you'll need to keep your users continuously engaged. An important benchmark in the gaming industry is the fact that merely 2% of the most active users generate 90 percent of the app's revenue.

In every revenue model, you choose, it's important to monitor the marketing metrics that include lifetime customer value, free to paid conversions and churn rate etc. Measuring these metrics and benchmarking them against the industry will help you spot weaknesses and align your marketing, engagement, and retention efforts more effectively.

Successful monetization is also a result of continuous testing and iteration. It's important to try different revenue models before zeroing in on one, and the product roadmap you build for your mobile app ought to include this insight.

About ChromeInfotech

Chrome Infotech is India's leading Mobile App Development Company serving clients internationally from US, Europe, Middle East and Australia. We deliver apps with exceptional design and functionality, while keeping focus on business ROI.

We excel in assisting startups with disruptive ideas and enterprises looking to innovate their businesses with mobile-first technology. We are practitioners of AGILE development and can help you build your app with latest features, in as early as 90 days.

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8 Ways to Wring Revenue From Your Mobile App
Mobile Ad CPM Rates
What is the difference between Ad Exchange and Ad Network
Mobile Ad Networks Interstitial eCPM Report

In a world where Users = Customers

Angry birds: the world's largest mobile app success
Subscription-based Mobile Apps: Why App Developers Are Embracing the Shift to Recurring Revenue
Lumosity - Brain Training
Some of Our Recent Works

It's not necessary to use only one Revenue Model

Developer Economics 2013 - Key Insights
App Monetization 101