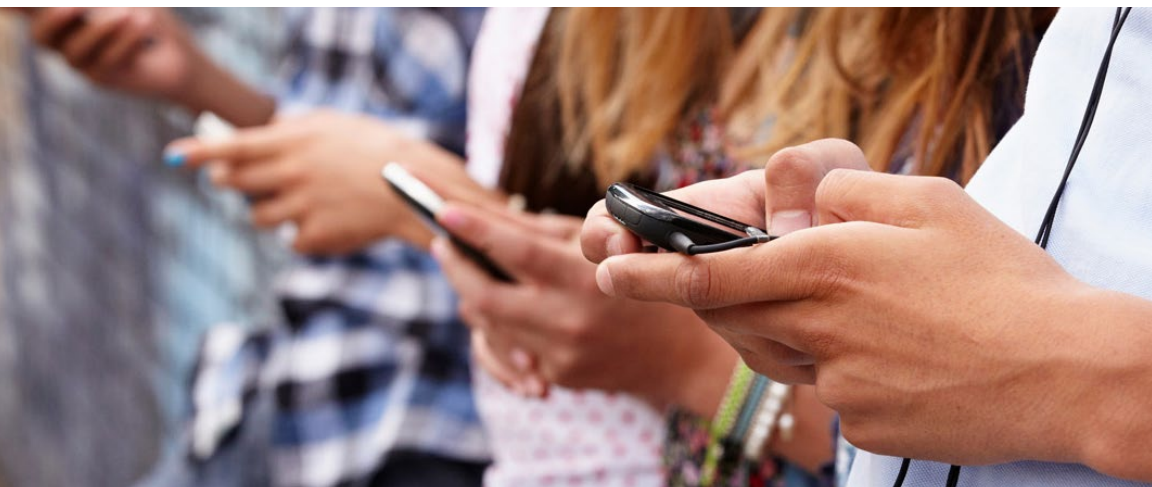


The No-Nonsense Guide to App Monetization



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Introduction

A couple of years ago, Christoph Pferschy, an app developer from Austria found himself struggling with his weight. He was frustrated. After trying all sorts of diet and exercise plans, nothing seemed to stick. One day, he stumbled across an article preaching the perks of consistently drinking water throughout the day. He gave it a shot, and it worked—he became much more energetic and lost lots of weight.

Understanding how to best monetize your app is important. It'll provide you with the resources to build the ideal lifestyle that you want and to keep the best version of your app in the hands of users.

But, what does this have to do with app monetization?

Well, being an engineer, he imagined how technology could scale his experience and help thousands of people, all over the world drink more water. He got to work and in a few months designed and developed the app, [Hydro Coach](#), a water intake tracker and reminder app.

At first it was just a fun hobby. He struggled to get 1,000 downloads every month. But through methodical analysis and tweaking, they now attract over 5,500 downloads a day. Additionally,

they've been able to make money from the app with ads and in-app purchases, turning Hydro Coach into a full time job. He now plans on growing the business by creating more useful and high-quality health-related apps that work together in a single health & fitness system.

Whether you dream of running a billion dollar startup with thousands of employees or a close-knit team that enjoys the benefits of extra time and extra income, understanding how to best monetize your app is important. It'll provide you with

the resources to build the ideal lifestyle that you want and to keep the best version of your app in the hands of users.

This guide is designed to provide a no-nonsense, comprehensive first look at monetization. Because the way you choose to monetize might affect your app's design, this guide is recommended for developers who haven't launched their app yet (but even if you've launched already, keep reading – there are still a lot of useful insights for you).

By the end of the book, you'll learn:

- ✓ What the seven primary app monetization models are and the pros and cons for each
- ✓ How to choose the right monetization strategy for your app
- ✓ Important considerations to keep in mind when implementing your monetization plan



Chapter 1:

The 7 business models you need to know

Apps today make money in 7 ways. The method that'll work best for you depends on several factors we'll discuss in the next chapter. Until then, here's a snapshot of all the models:

- 1 [Premium Apps](#)
- 2 [Ads](#)
- 3 [Freemium](#)
- 4 [eCommerce](#)
- 5 [Subscription](#)
- 6 [In-App Purchasing \(IAP\)](#)
- 7 [Hybrid: In-App Ads + In-App Purchasing](#)

1 Premium Apps



DESCRIPTION

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



BENEFITS

- This is money in the bag. Guaranteed revenue for every download means less stress over conversion rates and impressions.
- 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 customer.
- Premium apps usually have higher engagement rates. Since people are paying for your app, it's clear they really want your solution.
- It's hard to compete with free apps. The different app stores are crowded with free apps, making it hard for premium apps to gain traction.
- Paying users usually have higher expectations. They may have less forgiveness for an app not ready for primetime.
- Apps with a niche audience looking for a tailored solution. The app must have unique features to justify their download price and differentiate them from their free competitors.
- Business-to-business apps can gain traction with this model – professionals are willing to spend their company's dollars on useful products.



CONSIDERATIONS



APPS THAT WORK WELL WITH THIS MODEL

EXAMPLE

[Calendar 5](#)

2 Ads



DESCRIPTION

In this monetization model, advertisers pay you to place advertisements in your app. You'll then tailor which ads to show to your users based on their interests, location, demographics, and other selected signals. You could 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.



BENEFITS

- This allows you to release your app to users for free. With the right number of people downloading and using your app, this revenue stream can be significant.
- Ads have evolved to become more relevant, meaning a better overall user experience.
- There are a lot of different ad types now (videos, full-page, banner, etc.). It'll be easy to find and incorporate the right advertisement that fits with the look and flow of your app.
- Mobile ads is a growing industry. According to a Vision Mobile study, the mobile advertising marketing will be a \$62 Billion market by 2017.*
- There are easy-to-implement tools and ad platforms (like AdMob) that let you start making money from ads quickly.



CONSIDERATIONS

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

Any app where the user has not paid to download the title

EXAMPLE:

[Calculator Plus](#)

**Vision Mobile, App Economy Forecasts 2014-17, December 2014*

3 Freemium



DESCRIPTION

Freemium apps are a combination of the free, ad supported model and paid, premium model. The app is free to download, however users can upgrade to a premium version of the app with more features for a fee. This model lets you attract a large group of users, get them hooked on your app, and provide the most engaged users with premium services.



BENEFITS

- It's easier to build up a large user base since 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. Predictable, recurring revenue is the holy grail in business.
- This is a flexible model that can be adapted to almost any kind of app – gaming, utility, messaging, productivity apps and more.



CONSIDERATIONS

- Some apps find it difficult to offer both a compelling free version and a paid version of their app. If you offer too many features for free, it will be too hard 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

Apps that have a clearly valuable free version and compelling paid perks.

EXAMPLE

[Angry Birds 2](#)

4 eCommerce



DESCRIPTION

This model is very straightforward – you sell physical goods through your app. Your app is free to download and acts a portal for users to discover and purchase products.



BENEFITS

- The profit margins for eCommerce businesses are usually higher than traditional brick-and-mortar stores.
- eCommerce businesses are much easier and less risky to get started than traditional brick-and-mortar stores. You can start small in your living room with little inventory.
- eCommerce blends with content brands really well. If you write about fishing, selling relevant fishing gear directly to your audience is a logical way to monetize.



CONSIDERATIONS

- eCommerce profit margins are lower than all-digital models—storing and shipping physical products eat into profit.
- Large eCommerce marketplaces make it difficult for independent shopping apps to stand out.



APPS THAT WORK WELL WITH THIS MODEL

Apps that sell physical goods through their app.

EXAMPLE

[Amazon](#)

5 Subscription



DESCRIPTION

Similar to the freemium model that charges for more features, 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.



BENEFITS

- It's easier to build up a large user base since the app is offered for free.
- As long as you keep paying users happy, they'll continue paying regularly.
- This model blends well with advertisement. You can still monetize your free users with ads, allowing your high-quality content to be more accessible.



CONSIDERATIONS

- 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 for free a month?
- 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 more 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

[YouTube Red](#)

6 In-App Purchasing (IAP)



DESCRIPTION

This monetization strategy relies on the selling of 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 5 tries could offer 3 extra guesses for a small fee.



BENEFITS

- 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 easily be combined with other models.



CONSIDERATIONS

- Typically only [2-3% of users actually convert](#) into purchasers within a title, leaving a whole lot of money on the table.* The next model addresses this.
- 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](#)

* AdMob by Google, *A Winning Combination, How using in-app purchases and ads together can maximize mobile game revenue, December 2015*

7 Hybrid: In-App 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 most likely to make in-app purchases and ads to the segment unlikely to ever make in-app purchases.



BENEFITS

- There's a potentially big increase in revenue when switching to a hybrid model. Through analysis of over 10,000 top Android apps, we found that games can earn about [117% more revenue by adding ads to apps already using IAP](#).*
- 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.



CONSIDERATIONS

Properly segmenting and targeting users could be a challenge.



APPS THAT WORK WELL WITH THIS MODEL

Many apps that already offer IAPs or already show ads can benefit from segmenting their users implementing a hybrid monetization model.

EXAMPLE

[Backflip Studios](#)

* AdMob by Google, *A Winning Combination, How using in-app purchases and ads together can maximize mobile game revenue, December 2015*

Chapter 2:

Choosing the best business model for your app

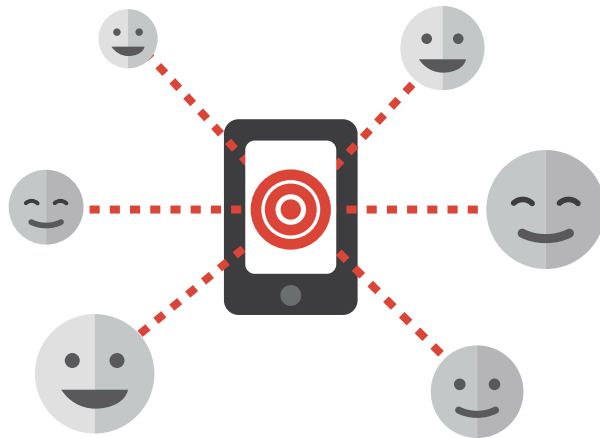
Now that you know your options for monetizing, it's time for you to pick the right model for your app. To do this, you'll need to deeply consider your specific business. Some of the business model options may obviously not make sense for you, but there are often nuances that are worth trying out and experimenting, bets that may pay off big time if everything works out. With limited resources, even small tests eat up precious resources. But, how do you take that first step? As you consider how you should make money, think through the following questions.



Who is your audience?

Try to be as specific as possible. The deeper you understand your audience, the more in tune you'll be with what they're willing to pay for. For example, a 24-year-old casual gamer may never pay for an app. If your app targets him, you probably shouldn't make it premium. But, he may be really engaged and willing to pay for an extra 3 lives at the end of a tough level in your game.

With the audience in this example, offering in-app purchases may be a no-brainer decision for you to make. But knowing what digital good, for how much, and at what point in the game to make the offer requires you to be dialed into your audience. This nuanced understanding of your audience can help you know the best way to monetize your app.



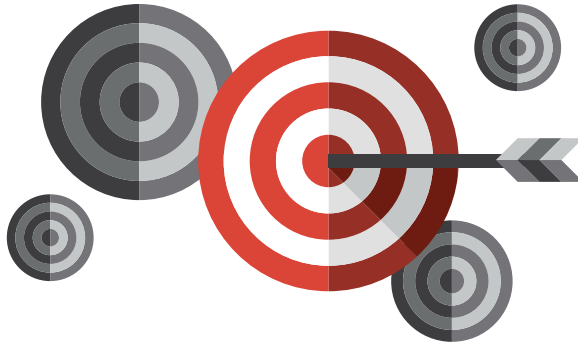
What value does your app provide?

Seems like a straightforward question, but the answer often gets taken for granted and muddled as you further develop. 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 found, it doesn’t make sense to charge for the app. People using your app are looking for discounts. Where users are willing to pay is at the point of booking. That’s where your opportunity is to make money (with possibly a small percentage booking fee).

If instead, what your hotel booking app does is grant users access to the most exclusive and lavish hotel rooms in a city, the value isn’t found at the point of booking, it’s found in access to your app’s content. Paying upfront might make much more sense for this scenario. You might even consider marketing the app an ultra-exclusive, “invite only” club, playing up the perceived value for it and charging upfront accordingly.

In either scenario, identifying what your app does exceptionally well helps you know what value you bring to your users. This, in turn, helps you learn which model you should choose to make money.



How do you intend to promote your app?

The equation to calculate how much profit you'll make will always require an understanding of how you'll promote your app.

$$\begin{aligned} & \text{Total Revenue} \\ & - \text{cost of goods} \\ & - \text{operating costs} \\ & - \text{promotion costs} \\ \hline & = \text{profit} \end{aligned}$$

Knowing what options you have for promotion requires an understanding of your audience and what marketing channels they frequent. Are they searching for your product on Google? Are they on social media? Do they read any blogs or news sources? Are there paid ways to promote yourself 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.*

[Users discovering apps through search engines:](#)

- 43% found technology apps
- 35% found travel apps
- 34% found local apps

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

* Think with Google, *Mobile App Marketing Insights, How Consumers Really Find and Use Your Apps, May 2015*



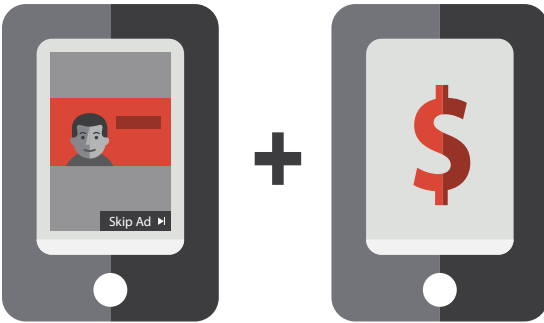
Example: GOOGLE PLAY MUSIC

[Google Play Music](#) is a free, curated radio app with a library of over 35 million songs. Let's walk through the 3 important monetization questions and see how they lead to a clear business model for this app.

Who is your audience?	What value does your app provide?	How do you intend to promote your app?
<p>With such a large library of music, the target audience for this product is massive—anyone with a smartphone that listens to music.</p> <p>It would be important to have some focus on the most engaged segment of the target audience. In this case, that would be 18-29 year olds.</p> <p>According to a 2015 study by the Pew Research Center, 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.</p>	<p>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:</p> <ul style="list-style-type: none">✓ Access to all of the songs on demand vs. restricted access to only predetermined radio playlists✓ Download music to play 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✓ Listen to curated radio for anything you want to hear	<p>The available marketing tactics for this app won't be a limiting factor in choosing its business model.</p> <p>Because this product has mass appeal, there are a lot of free and paid ways to get the word out about this app, including:</p> <ul style="list-style-type: none">✓ Press✓ Social Media engagement✓ Events marketing✓ Paid advertising

So, what is Google Play's revenue model?

Ad-supported Subscription Model



Justification:

Because the potential audience for this product is so large, it's reasonable to make the app free to get as many users through the door. 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. This makes the subscription model a perfect model for this app.

Once the business model was chosen, the challenge became deciding what features should be available for free, and which ones should be paid. The Google Play Music team has 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.

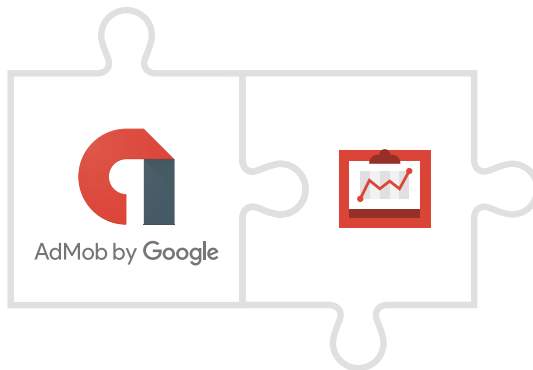
To ensure that there are sustainable resources available to expand and upkeep the app's free services, Google Play Music monetizes its free user base through ads.

Chapter 3:

Things to keep in mind as you charge forward with your monetization plan

Be data driven

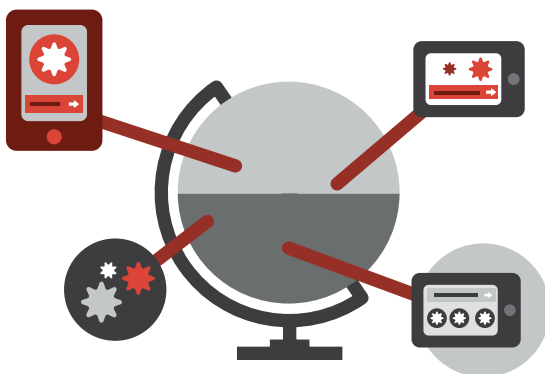
Set up a good analytics tool in your app. Using data to understand and predict user behavior is important to optimize your monetization strategy. Data can help surface where users are most engaged in your app and where they're leaving. It can surface where most of your users are coming from and what 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

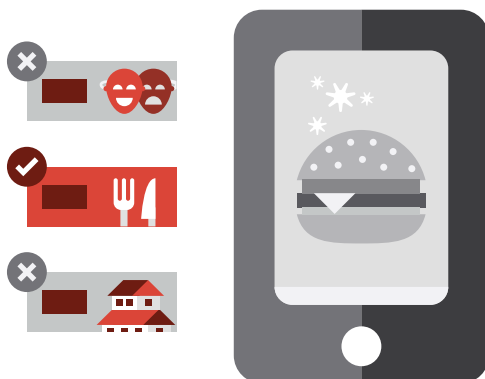
Apps have the potential to touch the lives of people all over the world, crossing borders of language and culture. If your analytics reveal that a sizeable percentage of your audience comes from a certain part of the world, you may want to work on localizing your app for that region. This doesn't only mean translating your app. Different audiences may be accustomed to different monetization strategies. Do research and run experiments.



Check out our [global market insight reports](#) in our App Developer Business Kit to learn about hot regions around the world.

With ads, provide value first

When placing ads in your app, it pays off to think through your app's experience from your user's perspective. The temptation to aggressively place advertisements won't prove profitable in the long term. Advertising should fit seamlessly into the 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



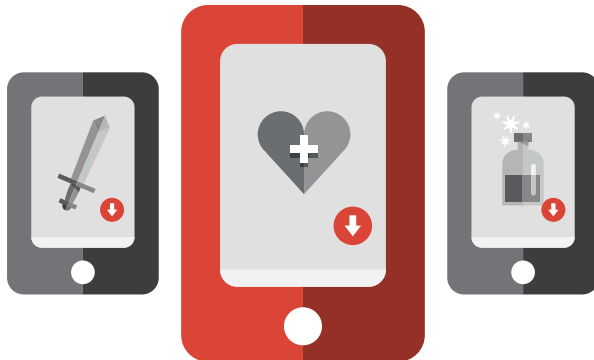
with it. How often you show ads should be tested to ensure it gels naturally with your app. The more engaging your app is, the longer users will stay on it and the more likely they'll re-open it. This gives you more chances to monetize from them.

Check out [this article](#) to learn more about effective ad placements in app.

IAPs aren't only for games

There are well known examples of gaming apps that have made fortunes selling digital goods, but these aren't the only types of apps that in-app purchases make sense for. Some of the more surprising opportunities are with apps that creatively offer in-app purchases where this isn't the traditionally accepted business model. For example,

- ✓ Yelp is integrated with Eat24: 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.
- ✓ Line: Charges users to customize their messaging with premium, digital goods like stickers.



With IAPs, be sure to design a tight purchasing user experience

It's a big deal when a user decides to make an in-app purchase. If the process of making that purchase is heavy and burdensome, 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 to optimize the purchasing experience and make it as easy as possible for your users to make an in-app purchase.

Next Steps

We hope that you enjoyed reading this guide to monetizing your app. Now it's time to get to work. 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 will bring clarity as you develop a monetization plan.

Be sure to fill us in with your progress on [Twitter](#) and [G+](#). For more information on user engagement and general app development, check out our [YouTube channel](#) and [blog](#). Best of luck!

ABOUT ADMOB:

AdMob is a leading mobile advertising platform, trusted by more than 650,000 apps worldwide. Since 2006, AdMob has helped developers to 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.