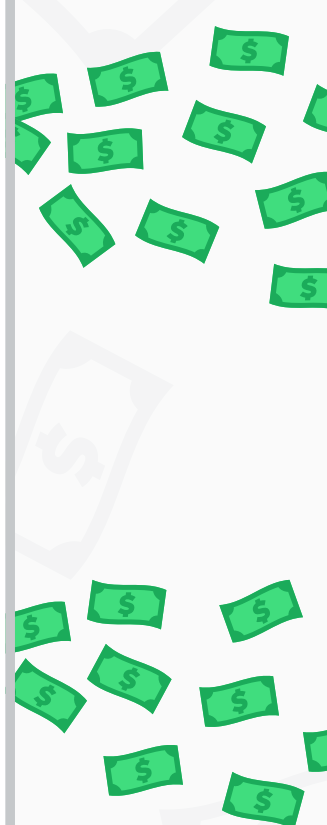
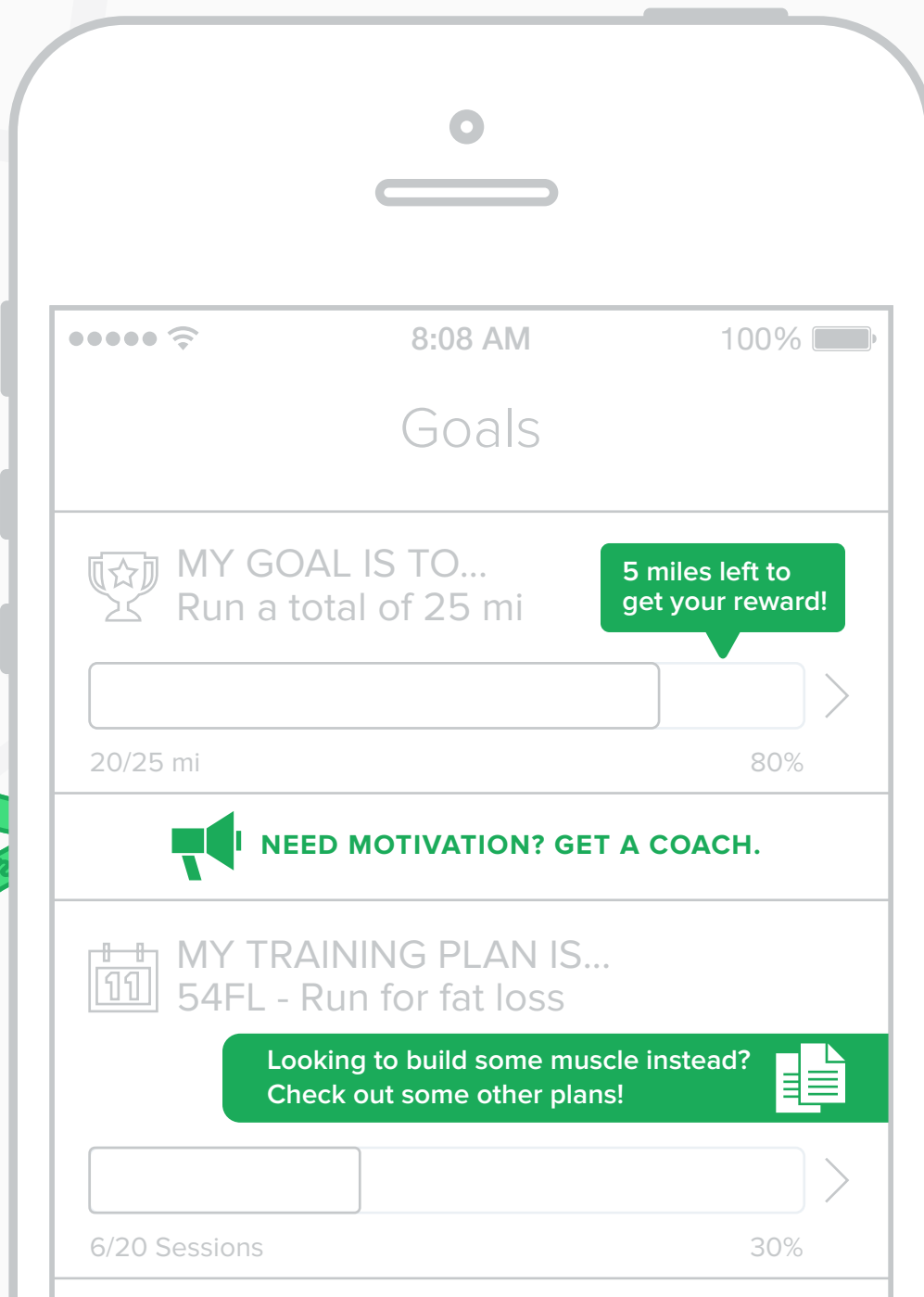


# THE DEFINITIVE GUIDE TO MONETIZING YOUR APP





**W**HETHER YOU'RE A RETAILER OR A NEWS PROVIDER, game creator or social networker, your app should act as an integral and profitable part of your business plan. Apps have become the preferred digital channel for your audience members, and given the growth in app usage year-over-year, your app should capitalize on growing behaviors and drive revenue.

But app monetization doesn't begin and end with charging \$1.99 for a download. The key to winning in today's overrun app market (and to turn a profit doing it) is to explore and create a revenue plan that speaks to your apps' strengths and works for your users. Using this eBook, you'll be able to:

- ☑ Identify the business aspects that help determine your monetization strategy
- ☑ Capitalize on insight into the major sources of App Store (and non-App Store) revenue
- ☑ Avoid four common app revenue myths
- ☑ Choose your solution from the six monetization models in play today
- ☑ Easily track app ROI with analytics

# Defining Your Monetization Strategy: Where's the Value?



There are hundreds of thousands of apps on the market today - all of which are competing for user attention, some of which have a growth plan, and a select few of which are successfully monetized. Where does your app stand amongst the competition?

All great apps serve a purpose: to make the users' life easier and more efficient. How your app accomplishes this is what sets it apart. What's the one "thing" you have that other apps don't? Or, what do you do better than the rest? To create a monetization plan that

truly works, you need to understand and harness the value in that differentiator.

While there are a few ways to generate revenue, the most effective method is one that plays to your strength -- that unique set of content, design, and audience of your particular app. To do that, first ask yourself these questions:

## 1. What are you monetizing?

Before diving into different app monetization models, it's necessary to consider what strategy will best suit your app and your users, as there's no one-size-fits-all option. If you're a news or media app, you're the expert in relevant and interesting content. If you're a reservation app, it could be spotting openings at hot local restaurants or notifying the user of great deals.

**This matters.** Why? Because when you understand the value you offer users, you'll know which parts of your app users will pay for or expect to be advertising grounds. Take for example social media heavyweight Facebook: it delivers a somewhat intangible "engagement" experience, and it's all about personal interactions. Being a social network, Facebook benefits from a good amount of user preference and interests data, which is used to personalize ads that users will see at several points during a given day. In this case, mobile ads (when unobtrusive and highly relevant), represent the best monetization option.

## 2. Who is your audience?

Just because they've downloaded your app, doesn't mean they're loyal customers ready to dole out cash at the slightest ask. App users vary, and there's no way to determine a strategy without understanding their behaviors and expectations. For example, Robb Report knows its reader base can easily afford a magazine subscription in addition to an app subscription. Putting a pay wall between users and full article content will prompt most users to pay for a subscription, probably without hesitation. BuzzFeed, however, doesn't have the same audience. If they were to use a pay wall monetization strategy, they would lose many users who are familiar with free website content.

Understanding user preferences is also becoming a crucial part in putting together a plan. Do they have an in-app profile that houses user data? If so, your app is primed for mobile ads, but will your users respond positively to that monetization model? Remember: your users are the ones who will make your app profitable, so formulating a plan that works for them (and suits their interests) is necessary to success.

### **3. What are your long-term business goals?**

Whether your organization is limited to the app ecosystem or you're a Fortune 500 company with hundreds of initiatives, clarifying your business goals as they relate to the app is essential to constructing a monetization strategy. If you choose the wrong model for your app, it could stall growth and lose users. It could be that your app is a stand-alone revenue channel dedicated to mobile-specific offers. Conversely, your app could be a companion to your primary function, which is still conducted on the web.

For example, while many travel itineraries are constructed and booked online, mobile apps have begun to add a layer to the exploration process. Although consumers might shy away from paying for a three-week vacation on a mobile app, the accessibility of apps does allow users to discover and save interesting options for future travel while on the go. In this case, your app's monetization strategy won't focus on in-app purchases, but rather on the interplay between mobile and web. Tee up the trip via app, and score the booking via web.

In identifying your monetization opportunities, it's important to determine a balance between your need to gain users with your need to earn revenue. Some app business models earn more money right off the bat at the expense of quickly acquiring tons of users, while others result in high downloads first and profits later. What is your timetable? Can you afford to initially forgo revenue to accumulate users? (It might be worth it, depending on your users).



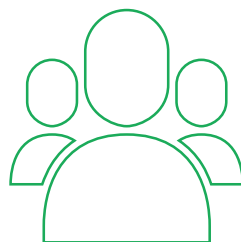
## RECAP

### Defining Your Monetization Strategy



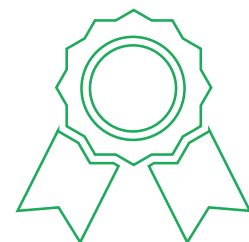
#### THE WHAT

Understand the value your app offers to users, then you'll know what users will pay for



#### THE WHO

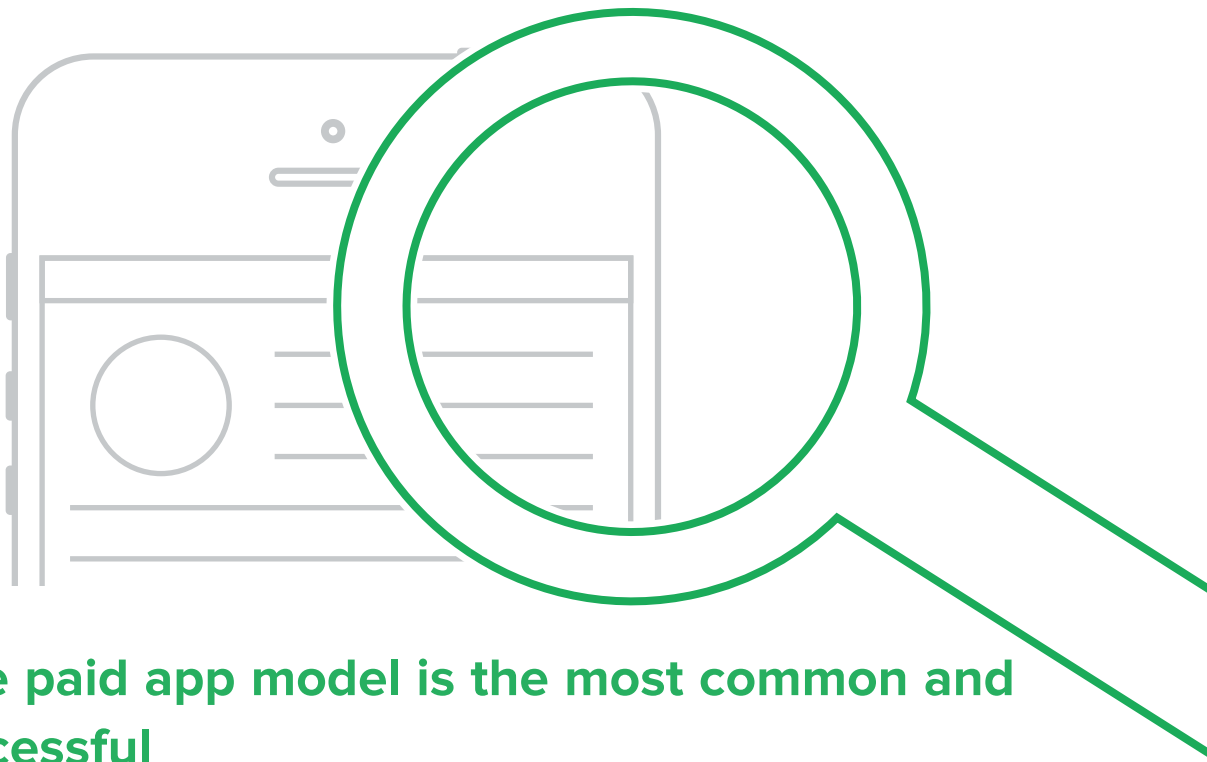
Understand who your app users are and how their preferences will be incorporated



#### THE GOALS

Determine your app's balance between need to gain users and need to earn revenue

# Four Mobile Monetization Myths to Ignore



## **Myth: The paid app model is the most common and most successful**

Paid apps don't equate to definite success. While in the past they may have been the primary source of app revenue, now, as mobile grows and marketers learn more, new (and sometimes more profitable) monetization strategies have been developed. Don't fall into the trap of assuming that launching your app as a paid app model means you'll see thousands of downloads and immediate revenue.



## **Myth: In-app purchases only work for eCommerce apps**

In-app purchases work for a variety of features and app types, and shouldn't be limited to retail apps alone. You can use apps to book flights and car rentals, buy credits to meet new people on a dating service, and order groceries -- all of which count as in-app purchases. There's a value add to apps that make purchasing simple, so even if you're not a prime example of a purchase-driven app, there is still plenty of opportunity for you to integrate this model.

## **Myth: Mobile ads are intrusive and useless**

Here's the truth: mobile ads can be hugely bothersome, but only if you're doing them wrong. In some cases, it's entirely possible to turn off app users, and even insult them, when ads are impersonal, invasive and infuriating. With advances in personalization, ad targeting is becoming smarter and more effective at understanding user interests (see more in the section below where we discuss the pros of in-app advertising).

## **Myth: I have to choose one monetization plan**

Apps are actually trending 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 might be the most popular today, but maybe you don't want to rely on it alone. Don't just do what others have done before, adapt and iterate on each app monetization strategy to make it work for your app.

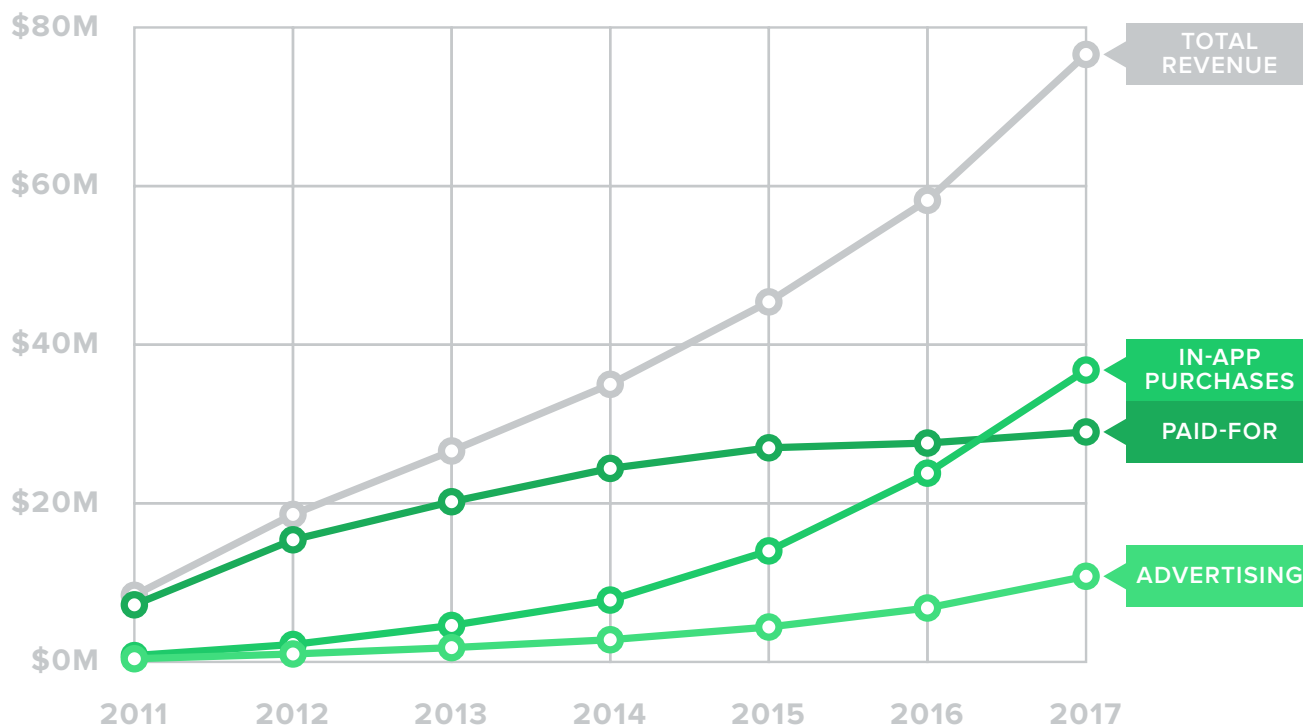
# Analyzing App Store Revenue: Where Are the Opportunities?



It's been only seven years since Apple launched its App Store, but in that time the entire app ecosystem has changed. When brands, developers and marketers were first discovering apps, the options for monetization were limited, and often came down to charging for downloads. So far, mobile has been a land grab, and not enough attention has been paid to creating quality revenue-driving apps.

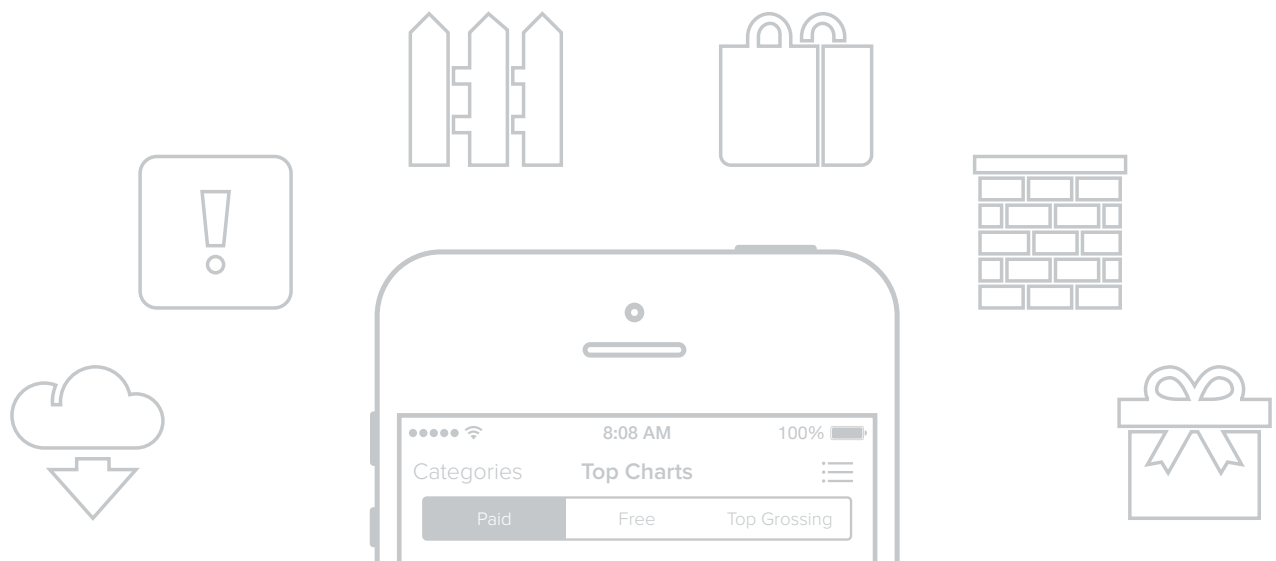
But where paid apps had been the norm, now, people are finding other (sometimes more creative) ways to drive mobile revenue. In-app purchases and Freemium models are on the rise, having [grown](#)

by 50% compared to 2012, and by 2017, in-app purchases will be the largest chunk of App Store revenue, outpacing paid apps and advertising.



This isn't to say that paid app models are dead, or dying, or that they shouldn't be a considered option. What's important to note here are the models that bring in the most revenue and are seeing the greatest growth, and to consider that in formulating your strategy.

# The Six Standard Business Models for Mobile Apps



## **Paid Apps (Cost Money to Download)**

The paid app business model simply means your app is not free to download. If people want to use your app they must first purchase it from the app store. Paid apps can cost anywhere between \$0.99 to [\\$999.99](#) (seriously), and brands make money upfront with every new user. The key to employing this model lies in your ability to showcase the perceived value of your app with a [killer app listing](#) that differentiates it from similar free apps.

This means the right keywords, relevant screenshots, and a host of spectacular user reviews. The most profitable paid apps do a great job of selling their app's unique features, be it design or functionality or brand (and following through).

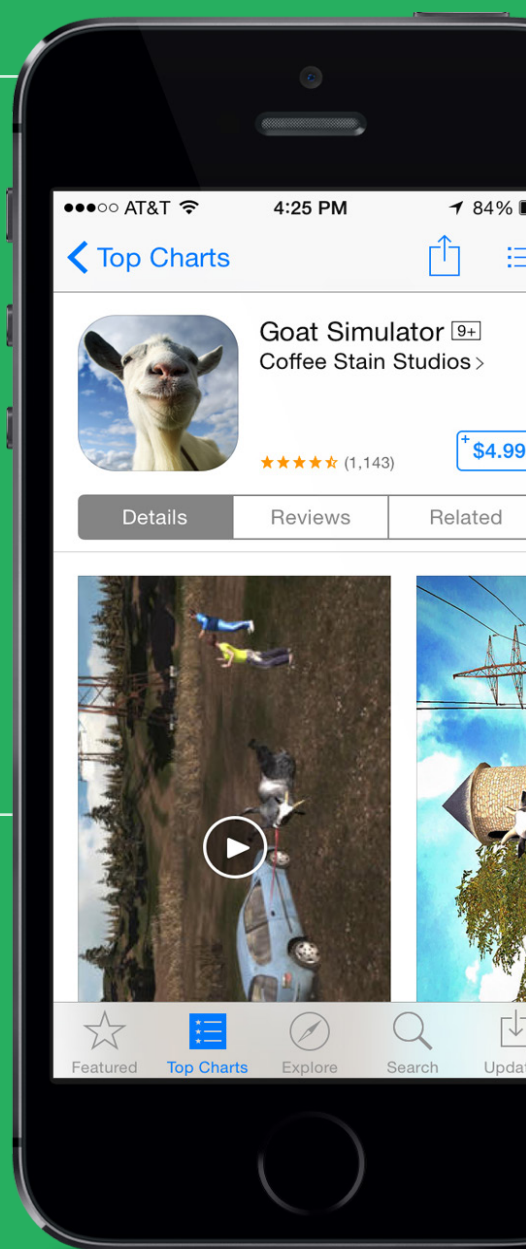
**This model might be right for you if:** you have a short timeframe for hitting a positive return, provide a service that would regularly be paid for, and/or provide unique value not available in alternative free apps.

### Pros

- ✓ App developers and app marketers earn revenue upfront with every new download
- ✓ The benefit of paid downloads is a predictable, guaranteed revenue per user & easy to report on - my app costs \$1.99, I had 10,000 downloads, so my app revenue is \$19,900
- ✓ People who have paid for an app are more likely to turn into engaged users (since they spent money to purchase your app vs. choosing a free one)
- ✓ In this model, the app does not usually have any in-app advertising thus allowing it to have a cleaner interface
- ✓ This model motivates app developers to focus on innovation since people expect paid apps to be the crème of the crop

### Cons

- Selling an app is hard because app stores are so overcrowded (stiff competition from many free apps)
- App stores take a cut of the revenue from paid apps (Apple gets approximately **30%**)
- **90%** of paid apps are downloaded less than 500 times per day (cost-barrier to gaining a large number of users)
- This strategy is steadily declining in popularity, given the number of free alternatives to most apps





## In-App Advertising

In-app advertising is only gaining in popularity, and it's probably something you've seen recently (and frequently) in the apps on your smartphone. In this business model, you remove the cost-barrier to purchasing your app and allow free downloads. Your goal is to accumulate a sizable user base and gather information on the people interacting with your app. You use this data to sell to other brands and app publishers, who pay you to place targeted ads in your app.

When done correctly, ads are a smart choice, because they don't distract from the user experience. In-app advertising is done in a highly-targeted, personalized way to attract users to relevant offers -- they turn bad when they cross the line to become overly intimate and create privacy concerns. This model requires care and attention to ensure that it doesn't overrun your native app value.

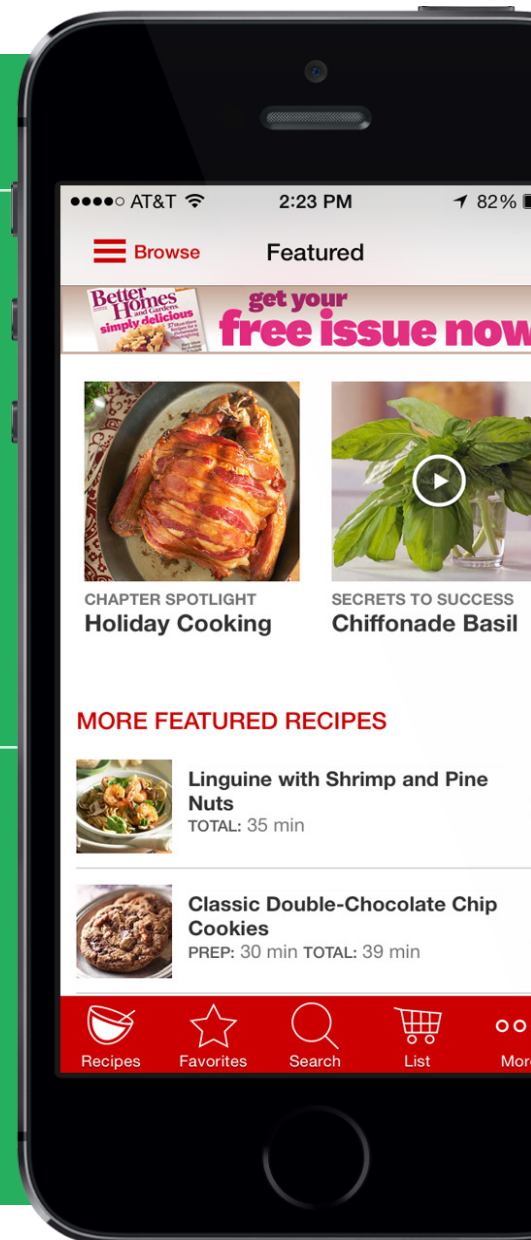
**This model might be right for you if:** there are no organic opportunities for in-app purchases in your app, you regularly collect preference data about users, and/or ads won't take away from your app UX.

## Pros

- ✓ Mobile apps are in a prime position to collect tons of data on their users (such as their in-app behavior and their location)
- ✓ Allows you to gain users quickly because people love free apps
- ✓ Can be effective if moderate and targeted advertising is used (ads are interesting yet limited)
- ✓ Mobile advertising spend will surpass radio, magazines, and newspapers in 2014 (lucrative and **growing industry**)

## Cons

- Not an innovative model and people can get annoyed of ads, which may lead to app churn
- Mobile ads can compromise your app experience by claiming a portion of the already limited screen size
- This model won't work for niche or utility apps that are designed to help users perform important functions (ads will be too unnatural and intrusive in this setting when people just want to do something quickly)



## Freemium (Gated Features)

Similar to in-app advertising, your app is also offered for free in a freemium business model, but certain features are gated and cost money to be unlocked. In other words, people have access to your app's basic functionality, but there is a charge for premium or proprietary features. The premise of this model is that you attract people to your app and give them a rich preview of what it can do (without giving them everything). The goal is to accumulate and engage app users until they are willing to pay for additional in-app tools.

Many successful gaming apps fall into this category, by making basic game versions free to all users, but requiring the user to purchase additional levels or premium options. From Angry Birds to the shockingly successful Kim Kardashian: Hollywood game, freemium apps allow people to easily play and become fans without hesitating at the initial price. Once app users have conquered a few levels or want to up their status, they're engaged enough to pay for the full-fledged version for more hours of fun.

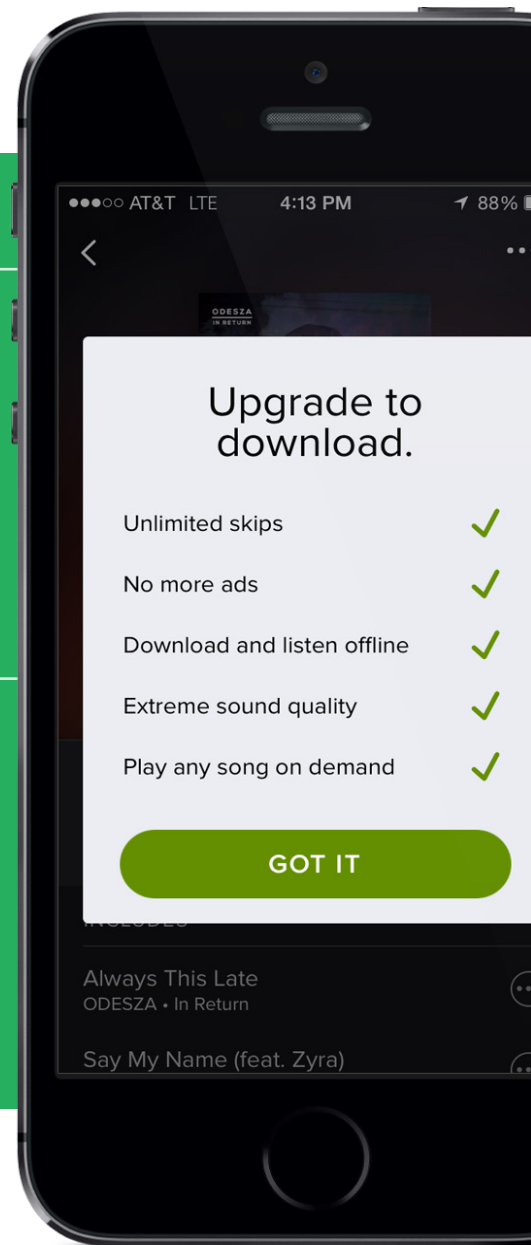
**This model might be right for you if:** you're a gaming app, have levels or advanced features in your app, and/or have long sessions lengths and highly-engaged users.

## Pros

- ✓ Model makes it easy to build up a large user base and showcase your app so people get hooked (and then you can upsell)
- ✓ People who “try before they buy” are more likely to become engaged and loyal users
- ✓ Flexible model that can be adapted to almost any vertical

## Cons

- If you offer too few features for free, app churn will be high
- If you offer too many features for free, it will be difficult/complex to convince your existing user base to pay for an upgrade (upgrade won't have much incremental value)
- App marketers must be careful not to provide a large segment of their users (the free ones) with an inferior app experience







## In-App Purchases

In-app purchases are exactly what they sound like. The goal of this model is to turn your app into another sales channel (for physical products that are used in the real world) or a mobile storefront (for virtual goods which can only be used inside the app) and retain the profits. In-app purchases can include a wide variety of consumer goods such as clothes and accessories. But they can also be virtual goods such as extra lives or in-game currency. Whatever your app is selling, make sure the in-app purchases feel like a natural part of the app experience.

You don't have to have a retail app to monetize with in-app purchases. Dating apps, such as MeetMe, allow you to freely browse profiles and chat with other users, but also offer credits to enhance your visibility and gain new ways to interact with people. MeetMe's purchase model is lucrative because the app is able to clearly highlight the benefits of in-app currency.

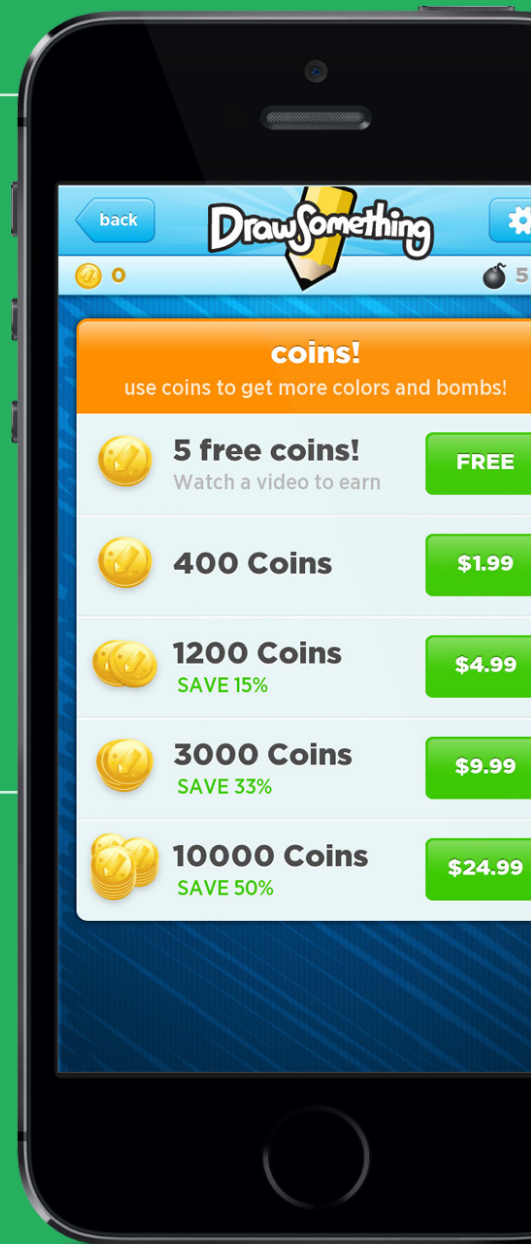
**This model might be right for you if:** you're a retail or services app, provide goods with clearly-defined value, and/or have the opportunity to introduce goods into your app (such as Keep, an app that allows you to "keep," or add items of interest to your various boards, and recently integrated a shopping cart feature.)

## Pros

- ✓ Works particularly well for eCommerce/mCommerce brands and is flexible enough for other verticals
- ✓ In-app purchases can help app marketers make comfortable profits with the lowest amount of risk
- ✓ Buying virtual goods can lead to deeper levels of engagement (growing monetization strategy)
- ✓ The profit margin is usually high with this model because brands don't have the traditional expenses on mobile that brick-and-mortar stores do (like staffing and rent)
- ✓ Flexible model which can also be adapted to include affiliate programs and partnerships which drive referral revenue

## Cons

- App stores usually take a cut of the revenue for virtual goods (but not physical goods or services) purchased inside an app
- Recently, this model has received **bad publicity** because government officials are pressuring Apple and Google to add stricter regulations to prevent children from making accidental in-app purchases
- Apps are required to be more transparent on their app store listing page if they include in-app purchases



## Paywalls (Subscriptions)

The paywall app business model is similar to the freemium model except that it focuses on gating content, not features. Paywalls allow an app user to view a predetermined amount of content for free, and then prompts them to sign up for a paid subscription to get more. This model is best suited for media- focused apps and allows brands to earn revenue on a recurring basis.

This model works well for traditional news and publishing agencies, but also music or podcast streaming apps, and other media channels. Often, beyond the paywall is more than access to additional content, but the ability to listen offline, download songs, or use the app freely across devices. In this model, not only is the user able to unlock unlimited content, but he also has the ability to dismiss ads.

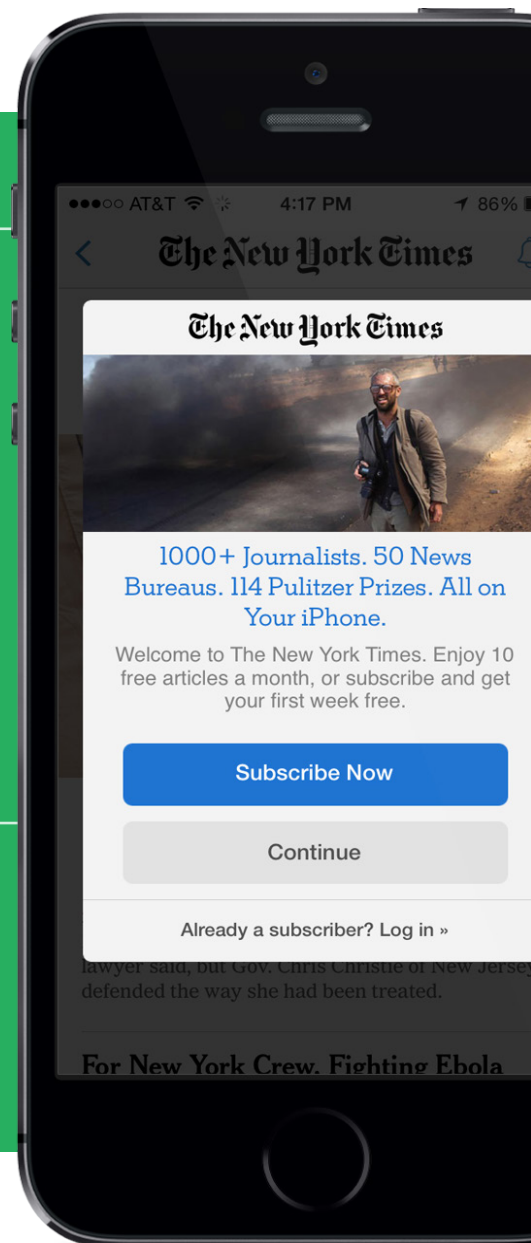
**This model might be right for you if:** boosting subscriptions or premium accounts is your main goal, have a content-driven app, and/or you want to use in-app advertising (and offer an alternative).

### Pros

- ✓ People get to experience all of your app's features, which increases session lengths and lowers app churn
- ✓ This app business model results in a continual weekly/monthly/yearly (depending on your setup) flow of revenue since subscriptions usually auto-renew
- ✓ Subscribers are more likely to be loyal and engaged app users
- ✓ Subscriptions and content gating also motivate app developers and app marketers to ensure they curate high-quality content that is worth paying for

### Cons

- Does not easily translate to all verticals (most suited for news, lifestyle, and entertainment apps since they can limit content like articles read or videos watched)
- It can be hard to determine where and when to place a paywall (what is the right limit to place?)





## Sponsorship (Incentivized Advertising)

Sponsorships are easily the newest (and greenest) monetization model. Sponsorship entails partnering with advertisers, who provide your users with rewards for completing certain in-app actions. 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 redeemed rewards. This way, you can incorporate advertising into your app that actually enhances your app's ability to engage users.

An early adopter of this app business model is RunKeeper. RunKeeper motivates users to track their running activity in-app by offering “rewards” upon completion. These exclusive rewards and promotions come from advertisers, hence incentivized advertising. The user feels rewarded for having used the app, and the advertiser gains impressions, click throughs and conversions. This strategy lets RunKeeper monetize their app without disrupting their app's experience with banner ads.

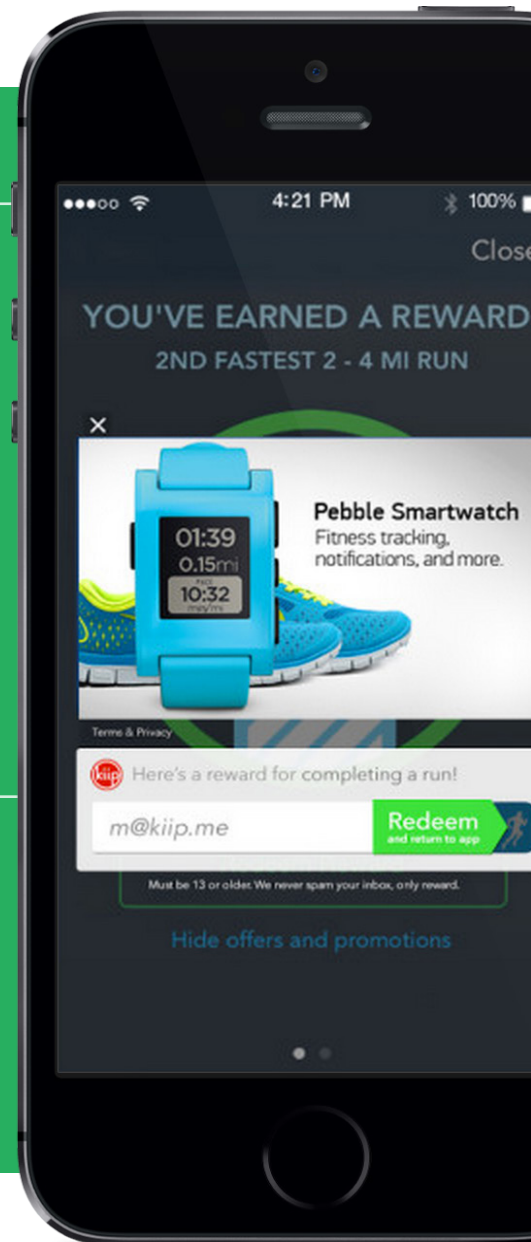
**This model might be right for you if:** you prefer a behind-the-scenes (and rewards-driven) monetization plan, have an app that makes it easy to reward in-app activity, and/or want to try something new and different.

## Pros

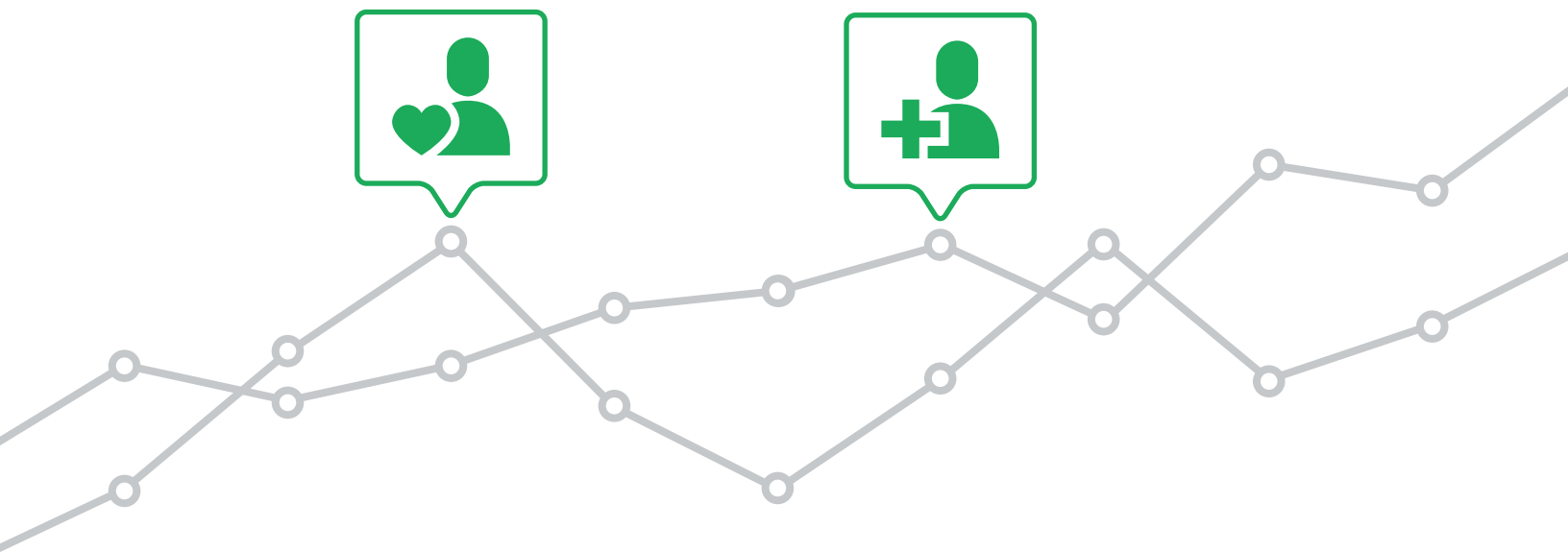
- ✓ Innovative app business model which can be adapted for many verticals
- ✓ This advertising strategy will likely be better received by app users because it is relevant and related to an app's purpose
- ✓ App developers and marketers earn from revenue, advertisers get more ad space, and users benefit from free promos
- ✓ This form of advertising can be aligned with your app's conversion funnels

## Cons

- Mobile marketers need to be careful about what actions they incentivize within their app (Apple has been **cracking down** on incentivizing downloads and social sharing)
- This app business model has not been as thoroughly tried and tested as the other ones (results and success may vary)



# Tracking Revenue & Using App Messaging



Launching an app without revenue tracking is like opening a store without a cash register - at the end of the day, you'll still have made money, but you'll have no way of effectively tracking it.

To ensure your money is where it's meant to be, analytics are the answer.

There's no single way to track every model we've outlined, but you can use a combination of platforms in tandem. If you're running mobile ads or sponsorships in your app, your ad network partner

will have a distinct way to track ad-specific revenue. Because these ads don't originate in your app (and instead are run from a separate space), the analytics capabilities vary by partner, but are available in abundance.

Most other models, including paid apps, in-app purchases, paywalls and subscriptions, you can track in your app analytics platform alongside other key usage metrics.

## Attribution

Within your analytics, attribution allows you to track the sources of all new users, be it organic or paid. While we didn't specifically address this scenario, if you've got mobile ads of your own live across other apps and networks to boost downloads, that is all tracked within your acquisition analytics. So, if you have your own app ads running on Facebook in order to reach potential new users, you are able to measure the success of that campaign by tying downloads, spend and return customer lifetime value (LTV) in your attribution tracking.

## Events, Funnels & Marketing Campaigns

Each action completed in your app is an event, and events are what create your funnels. The most popular example of this is the in-app check-out process: your events can be "product screen viewed," "item added to cart," and "checkout completed," all of which work together to move the user through the purchasing funnel toward an ultimate conversion goal. Funnels are where you track in-app purchases, subscription upgrades, and purchases on premium features (freemium model), because they're all dependent on

completed actions (primarily, the actual upgrade or check out).

Using your analytics, you can tag and define the events most crucial to your monetization plan. These can be levels completed or credits used in game apps, profile views or messages sent in dating apps, articles viewed or shared in media apps, and more. However your app is built, you can identify the most important individual events within that experience. Thinking of your app in terms of events helps to organize and optimize the conversion funnel, ensuring that your monetization model is successful

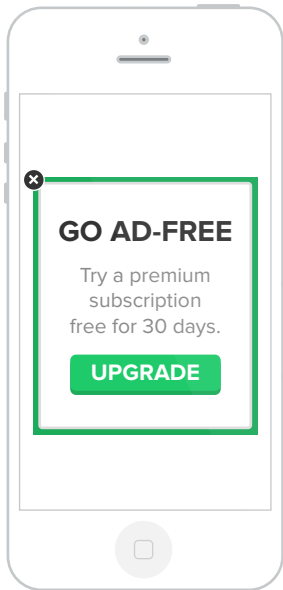
Marketing to your users using push and in-app messaging is also a critical component to converting users to paid models, and encouraging in-app purchasing. For example, if you're a news or media app and monetize with subscriptions, you might schedule an in-app message to appear after a user has read two articles that prompt him or her to become a paid subscriber. There's very little chance that your users will go out of their way to change their preferences and sign up for a paid subscription without any prompting. Using special offers and discounts, or just well-timed (and targeted) marketing, can change this.

The situation is similar for paywalls - in gaming, particularly, a user is notified of advanced levels to attain and features to unlock via a message after having completed a level or other important event. Be sure to use marketing to complement (and improve) app monetization efforts. Without the right marketing plan, you risk unengaged users, low app usage and little ultimate ROI.





# RE-ENGAGE CAMPAIGN



1<sup>st</sup> Article Viewed



76,127 users

73%

2<sup>nd</sup> Article Viewed



25,883 users

25%

Message Viewed



10,094 users

10%

Subscription Purchased



3,725 users

4%

## ROI & LTV

How do you actually track revenue over time? That's the issue many app owners are facing today. The easiest and most effective way to track revenue is using the lifetime value, or LTV, of each app user. With LTV, you can follow user value from the moment they first engage with your brand, through their entire lifetime. Say you have a paid-to-download model - when your new user first opens the app for the first time, their LTV is the amount they spent to download (say, \$4.99) - it's the same for subscriptions, which are generally one-time purchases (but can be charged on a regular basis, meaning the LTV will increase with each renewal). These are the simplest cases to track. User LTV grows over time as users make more in-app purchases, or continue paying more to unlock additional features or buy credits. But whether your monetization model is one-time with a static LTV, or ongoing with the need for engagement and growing ROI, there is a way to track and share success.

# The End Goal: Keep Users Coming Back for More

Here's what we've found: the most successful apps are the ones that keep users engaged. Even if you decide on a paid app model, consider this: a user who pays to download your app and then has a lousy experience is apt to uninstall and leave a bad review, preventing future users from downloading it, and stalling your strategy in its place.

Because your app isn't just about making money - it's about maintaining a channel that mobile users can use to better interact with your brand, one that makes their lives easier and adds clear day-to-day value. If you think of app success in terms of user happiness, you're already on track to benefit from building an app.

Once you've decided on a strategy, the next step is implementing and measuring. Make sure to research and choose the best app analytics and marketing platform for your organization, and use it to stay on track with your revenue goals (for more details on what you need, specifically on the marketing side, try the [Buyer's Guide to Choosing an App Marketing Platform](#)).

Happy monetizing!



Want to learn more?



You'll learn how to run app marketing campaigns that increase engagement, ROI and lifetime value.

**DOWNLOAD NOW**



# DRIVE APP REVENUE, ENGAGEMENT & LOYALTY

The only platform that enables you to use all of your data and insights to drive personalized and targeted marketing campaigns

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Filter and split key app metrics by any attribute, in real-time

 **USERS & SESSIONS**

 **EVENTS**

 **FUNNELS**

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Know your users so you can make smarter decisions

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