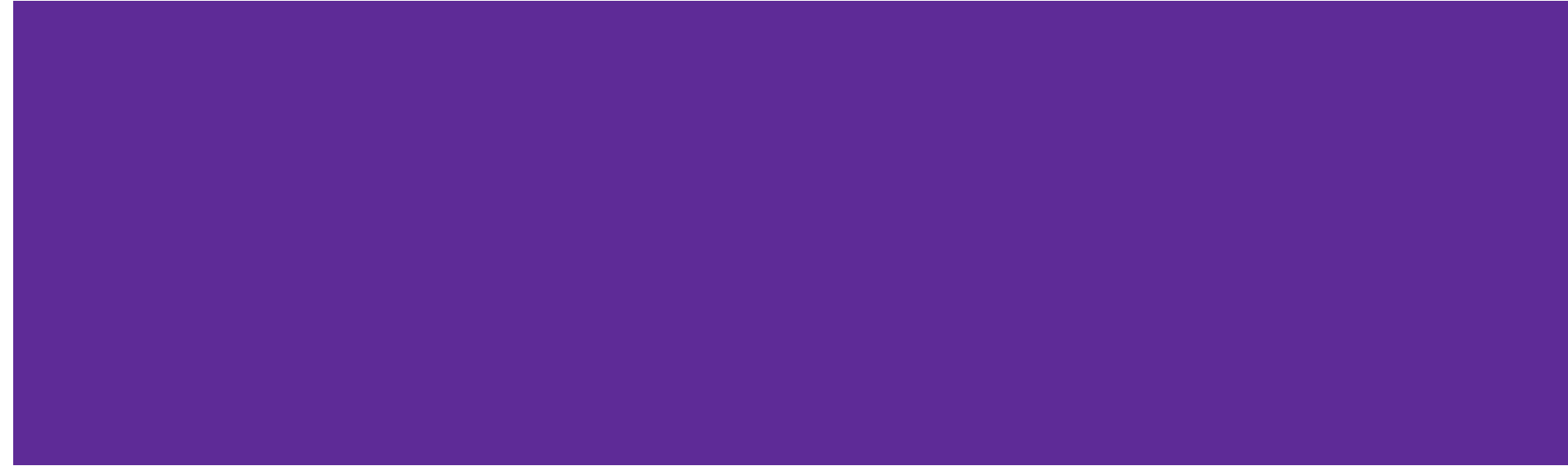# Apps Business Model

Identifying Which Business Model is Right for Your App

- Start by answering the following four questions:
  - What problem is your app trying to solve and how?
  - What is unique about your app and would people pay for this?
  - What else do you think your app users would be willing to pay for?
  - What business models do your competitors use and how well have they worked?

- Find the balance between your need to gain users and 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)

- App monetization strategies should be chosen and built into app before launch
  - Can always be modified the strategy as time passes or even change it completely
  - But approach mobile with the dual mindset of building an awesome app *and* eventually, a business

Free, but with ads (in-app advertising)

- Removes the cost-barrier to purchasing your app and allow free downloads
- **Goal** – accumulate a sizeable user base and gather information on the people interacting with your app
  - Data is then sorted and sold to ad publishers who pay to place targeted ads in your app

- **Example - Facebook**
  - Users don't directly pay Facebook anything to download or use their mobile platform
  - But leverages a vast amount of their data to sell highly targeted ads, a strategy which has proven to be effective for Facebook
  - The social giant annual ad revenue sat at a staggering
    - $84.169B in 2020 [1]
    - $114. 93B in 2021 [1]

[1] https://www.oberlo.com/statistics/facebook-ad-revenue
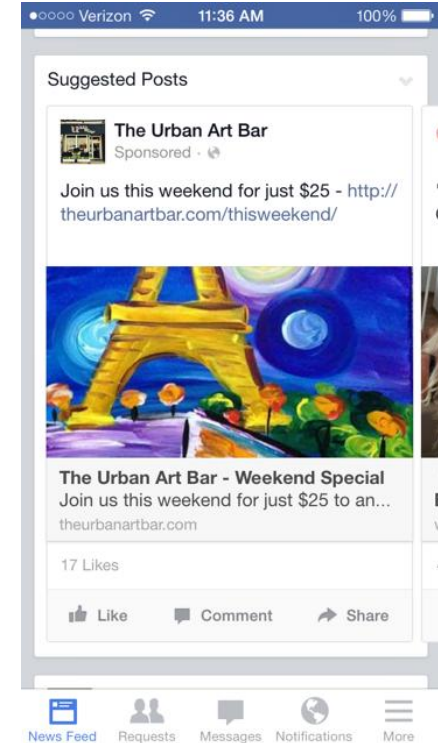
# Effectiveness: Free, but with ads (in-app advertising)

- **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
- **Cons**
  - Not an innovative model and people find apps annoying, which result in uninstalling
  - Comprise app experience by claiming a portion of the already limited screen size
  - This model won't work for 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 – offered for free**
  - However, certain features are gated and cost money to be unlocked
  - People have access to an 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 your app can do (without giving them everything)
  - **Goal** – accumulate and engage app users until they are willing to pay for additional in-app tools
- **Example – Angry Birds**
  - The Rovio team (the creator of **Angry Birds**) released a free version of their addictive app
  - However, the app kept certain features hidden (like being able to juice up your bird, additional levels, etc.) until users upgraded (for a small fee) to the full version
  - This allowed people to play Angry Birds and become fans of the game without hesitating at the initial price
  - Once app users have conquered a few levels and have had a glimpse into the game, they're engaged enough to pay for the full version
  - Another example is **Pokemon**
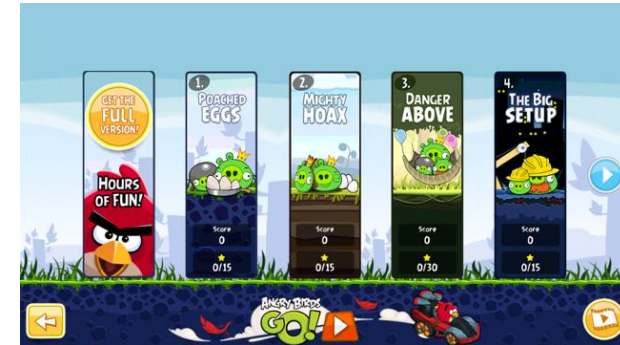
# Effectiveness: Freemium (Gated Features)

- **Pros**
  - This mobile app model makes it easy to build up a large user base and showcases your app to people get hooked (unlocking opportunities to upsell)
  - People who "try before they buy" are more likely to become engaged and loyal users further down the line
  - It's flexible model because it can be adapted to almost any vertical value
- **Cons**
  - If you offer too few features for free, app uninstall will be high
  - If you offer too many features for free, it will be difficult to convince your existing user base to pay for an upgrade (as the upgrade won't have much incremental value)
  - App marketers must be careful not to provide a large segment of their users (those who are using the free version) with an inferior/bad app experience

Paid Apps (those which you pay to download)

- Simply means your app is not free to download
  - People must first purchase it from an app store
  - Paid apps can cost anywhere between $0.99 and $999.99, and brands generate revenue upfront with each new user
  - The key to success with this model is your ability to showcase the perceived value of your app with a killer app listing (which includes screenshots, five star reviews, etc.) that differentiates your app from your competitors
- **Examples**
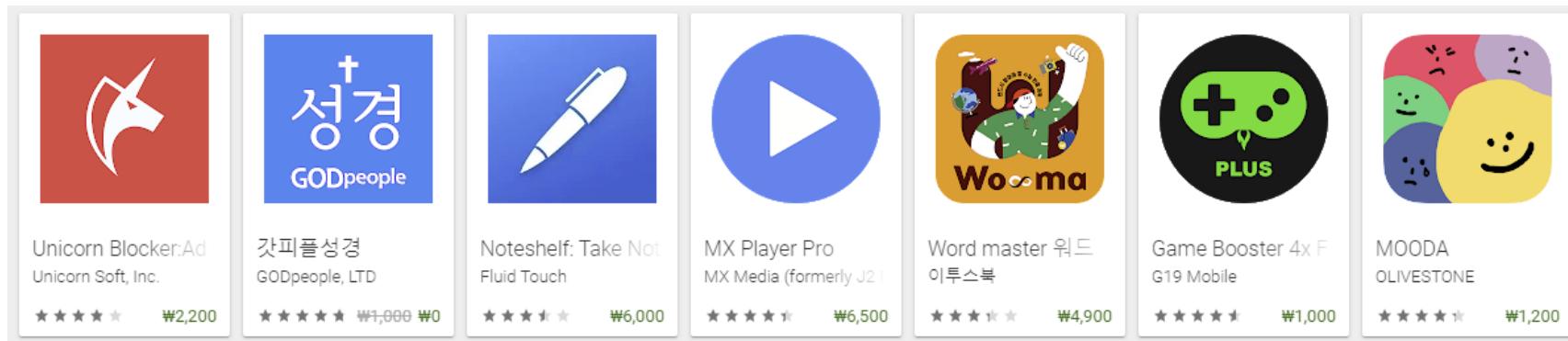
Paid Apps (those which you pay to download)

- **Pros**
  - App developers and app marketers earn revenue upfront with every new download
  - 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)
  - 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
- **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
    - Google/Apple gets approximately 30% (recently reduced with condition)
  - Paid models are a shrinking part of app store revenue
  - 90% of paid apps are downloaded less than 500 times per day
    - Cost-barrier to gaining a large number of users

In-App Purchases (Selling Physical/Virtual Goods)

- Selling physical or virtual goods within your app, and then retaining the profits
    - Include a wide variety of consumer goods such as clothes and accessories
    - Can also be virtual goods such as extra lives or in-game currency

- **Example - MeetMe**
    - People can download MeetMe for free and use it to browse profiles, chat with people, and connect with locals
    - However, you can also purchase credits to enhance your visibility and gain new ways to interact with people
    - MeetMe's purchase model is lucrative because the app can clearly highlight the benefits of in-app currency
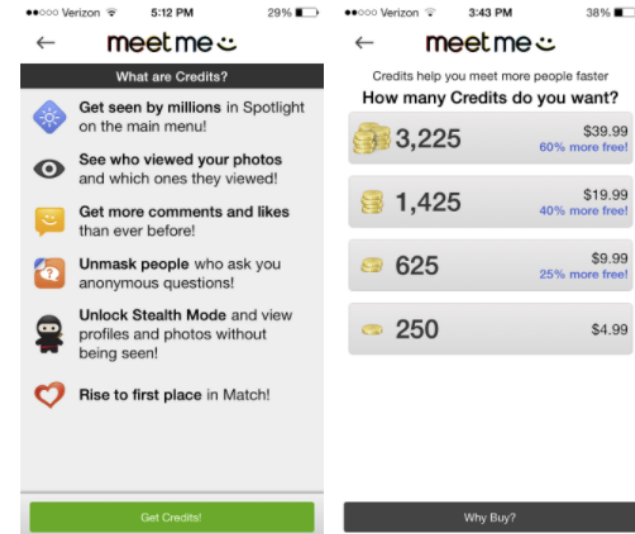
# In-App Purchases (Selling Physical/Virtual Goods)

- **Pros**
  - Works particularly well for eCommerce/mCommerce brands and is flexible enough for other verticals too
  - Can help app marketers make comfortable profits with the lowest amount of risk
  - 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 that 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
  - This model has previously received bad publicity because government officials pressured Apple and Google to add stricter regulations to prevent children from making accidental in-app purchases
  - Apps will need to be more transparent on their app store listing page if they include in-app purchases (which may prevent some people from downloading)

Paywalls (Subscriptions)

- Similar to the freemium model except that it focuses on making available of *contents*, not features
  - Allows 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
  - Best suited for service focused apps and allows brands to earn revenue on a recurring basis
- **Example – Umano**
  - Transforms news stories into podcasts
  - Allows users to listen to a limited number of stories until they sign up for a premium subscription
  - With this strategy, people can familiarize themselves with Umano's best features
  - But for a fixed amount of time until they are engaged enough to pay for unlimited use and content
  - Another example is **NetFlix**
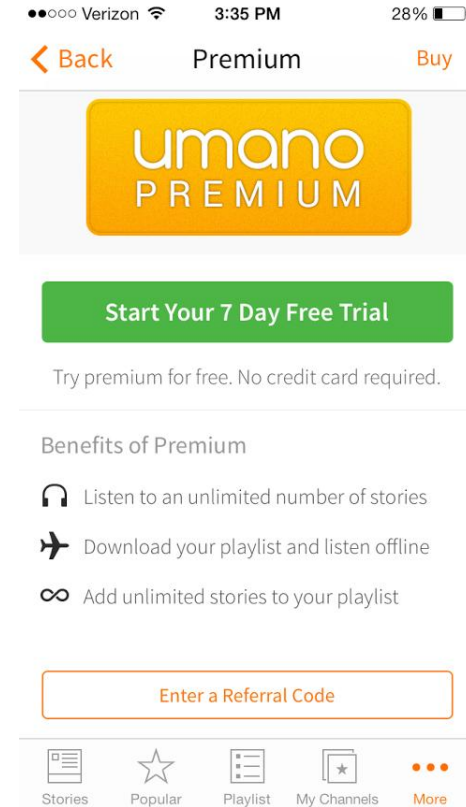
Paywalls (Subscriptions)

- **Pros**
  - People get to experience all your app's features which increases session lengths and lowers app uninstalling
  - 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
  - Motivate app developers and app marketers to ensure they prepare high-quality content that is worth paying for
- **Cons**
  - Does not easily translate to all types of contents
    - Most suited for news, lifestyle, and entertainment apps since they can limit content like articles read or videos watched
  - It can be difficult to determine where and when to place a paywall
    - what is the right limit to place?

Sponsorship (Incentivized Advertising)

- Sponsorship 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
  - Brands and agencies pay to be part of an incentive system
  - App earns money by taking a share of the revenue from redeemed rewards
  - This way, you can incorporate advertising into your app that enhances your app's ability to engage users

- Example - RunKeeper
  - RunKeeper uses incentivized advertising to motivate its users to track their running activity with their app to unlock exclusive rewards and promotions
  - This strategy lets RunKeeper monetize their app without disrupting the user's app's experience with banner ads.

Sponsorship (Incentivized Advertising)

- **Pros**
  - Innovative app business model which can be adapted for many verticals
  - This advertising strategy is likely to be better received by app users because it is relevant and related to an app's purpose
  - App developers and marketers earn 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 others (results and success may vary)

Apps could opt for a hybrid approach

- As the app landscape becomes more sophisticated, we should expect to see a trend towards more hybrid 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
- The main takeaway from:
  - Don't just do what others have done before
  - Adapt and modify each app monetization strategy to make it work for your requirements
- Standard methods may generate revenue with your app
  - But only the creative and courageous app marketers reap the rewards

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