Class 9 – Monetization Strategies and Pricing

Summer 2013

Accelerating Information Technology Innovation

The most important equation in business

Profit =

The most important equation in business

Profit = Revenue - Cost

The most important equation in business

#Customers x Price

Profit = -

(Variable Cost + Fixed Cost)

The most important equation in business

#Customers x Price

-

Profit = **#Customers x Cost per Customer**
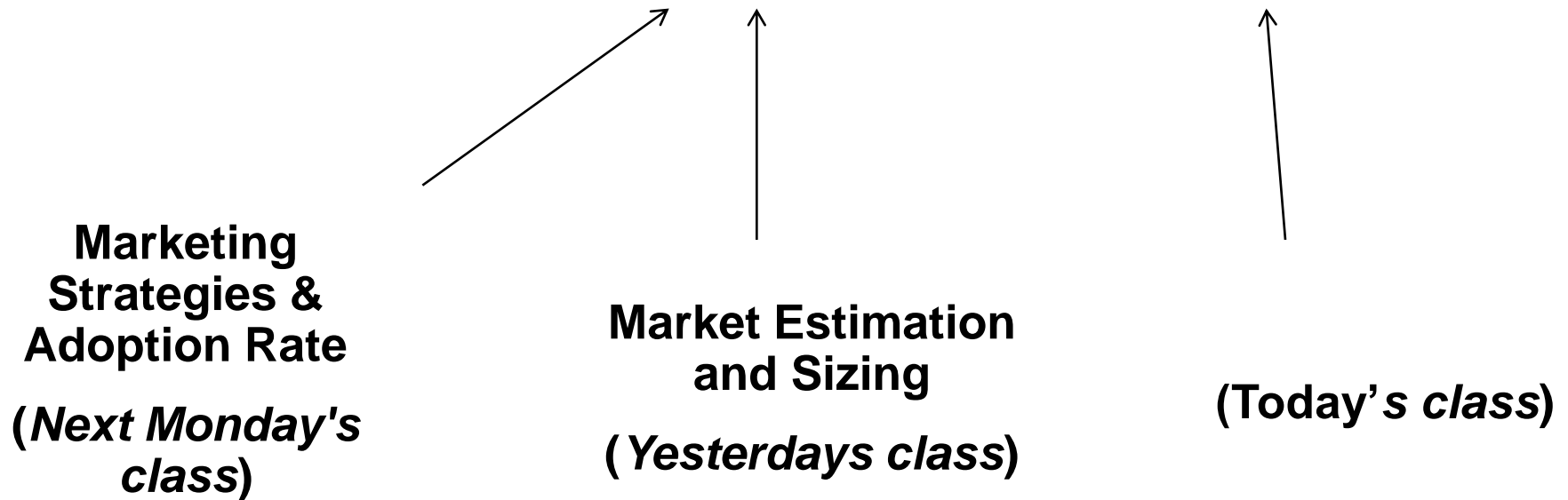
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Fixed Overheads

At a rudimentary level, these variables are all you need to know for your financial business plan

Lets think about revenue … what do we need to know:

Revenue = #customers x Price

Marketing Strategies & Adoption Rate

(*Next Monday's class*)

Market Estimation and Sizing

(*Yesterdays class*)

(*Today's class*)

Today's Agenda

- Monetization Model

- Pricing Strategy

Ten ways for you to make money with apps

1. Paid

2. Advertising

3. In-App Purchases

4. Webapp Subscriptions

5. Subscriptions

6. Sponsorship/Promotions

7. Lead Gen

8. Affiliate Sales

9. Analytics

10. Don't Make Money

1. Paid

■ Simple: You set your price, people buy your app

■ Google keeps 30%; Apple keeps 30%

■ Don't forget about ongoing costs: support, hosting, etc

■ Customer for Life – People Expect Free Upgrades (Total customer lifetime cost)

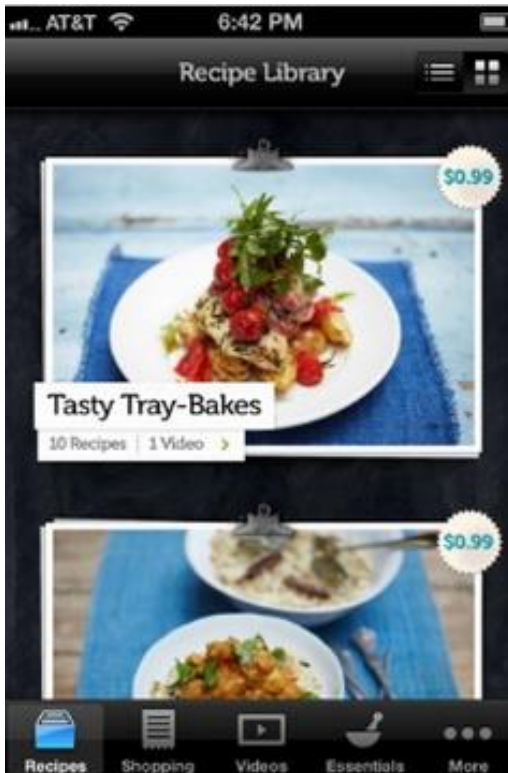■ Higher Price != More Money

Day One

2. Advertising

- Typical with Free Apps

- Will your App be used once by the customer or will it have a long lifespan?

- Need a lot of downloads to make any sizable money

- Expect pennies per day for each 100 downloads per day

Airplane Quiz

3. In-App Purchases

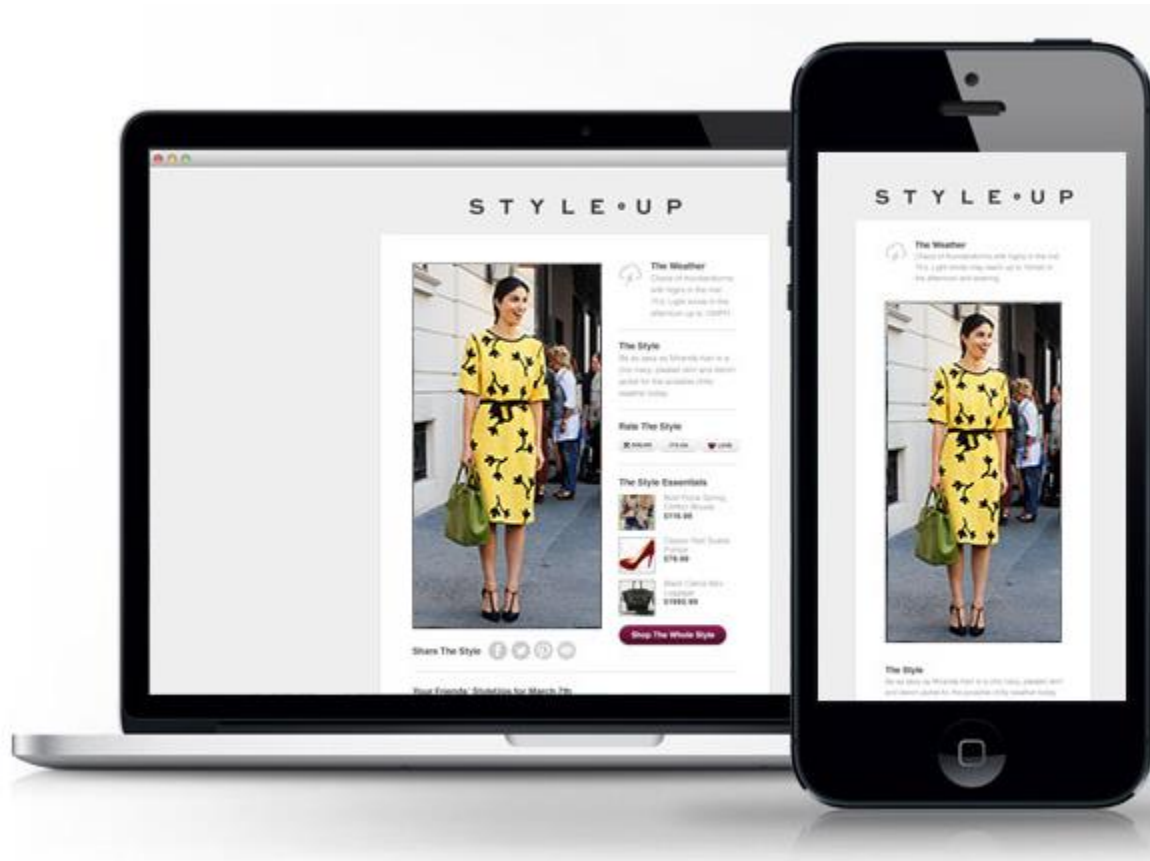■ Buy/order products and goods from within app

Tasty Treats

3. In-App Purchases

■ Lots of Flexibility

- Free + In-App ("freemium")

- Paid + In-App

■ Different In-App Purchase Types

- Tokens (consumables)

- Upgrades (non-consumable) – Free to Pro Upgrades, Additional Levels/Content

■ Expect 1-5% conversion rate (except if your drop box)

- If 100 people download your app, 1-5 people will make in-app purchase or ugrade
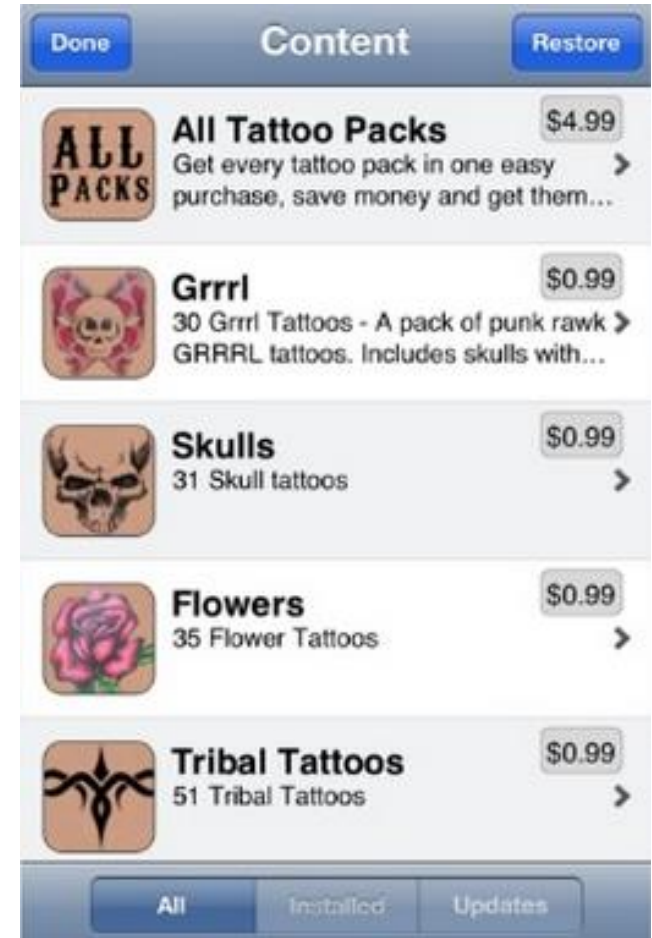
Tattooo You

3. In-App Purchases

Recommendation engine can increase in-app purchases

4. Webapp Services

■ **User Pay for Services through Webapp**

■ **Distribute Your Mobile App for Free**

   • **Reach More Customers**

■ **Requires Double Work: Mobile App + Webapp**

Evernote

# 5. Subscription Services

- In Order to Get New Content, or Premium Content, User Must Subscribe

- Usually distributed free (subcategory of fermium model)

- Typically used by Newspapers, Magazines, Video Platforms (i.e Netflix)

- Not Widely Seen Yet in developing world

- 1-5% conversion rate

Kids-In-Mind

6. Sponsorship / Promotions

■ "Brought to you by XXXX"

■ Like Advertising – but Companies pay you to feature their product or service within the app (not just banners)
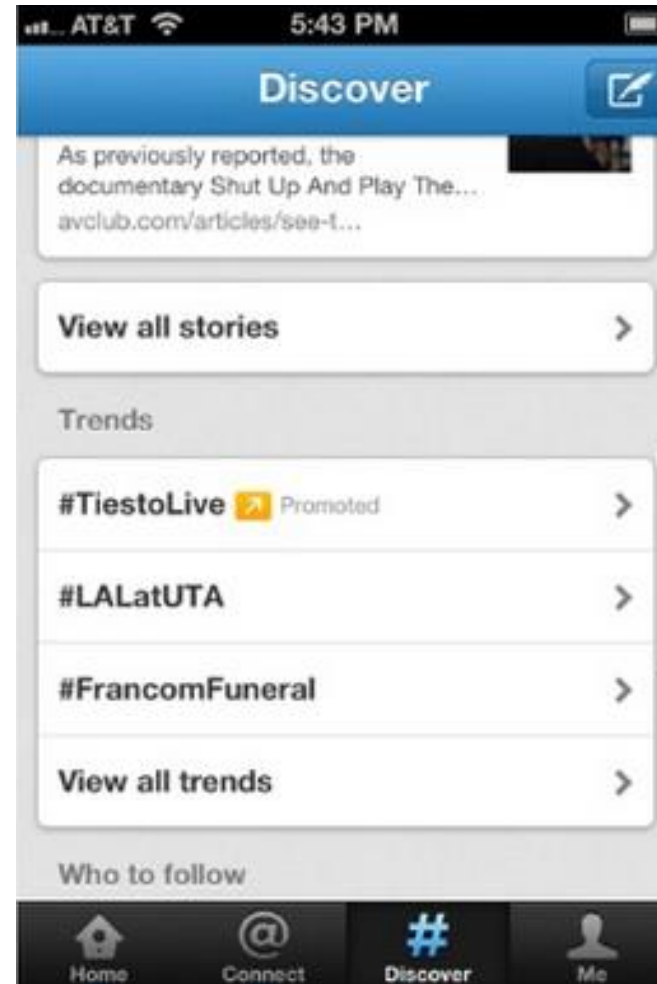
Twitter

7. Lead Gen (Generation)

- Companies Pay You to Get them Sales Leads

- High Trust is Required

- Sometimes viewed as "slimey"

- Super Low Conversions

- May be sale of customer data or click-through commission
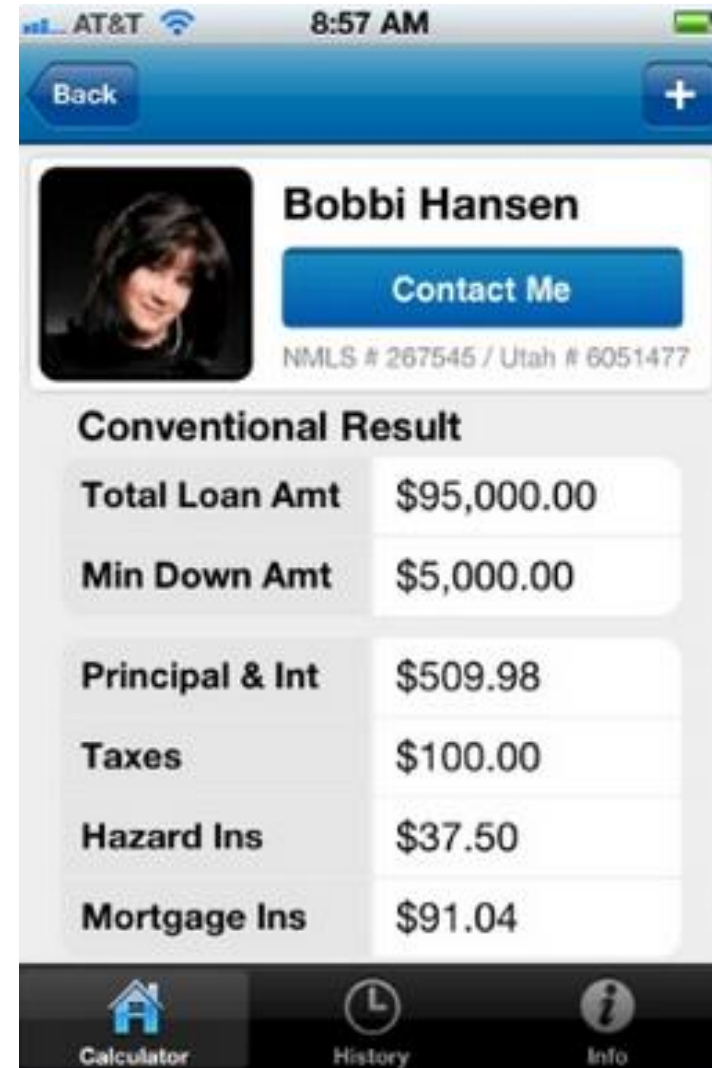
- Need Volume, Volume, Volume
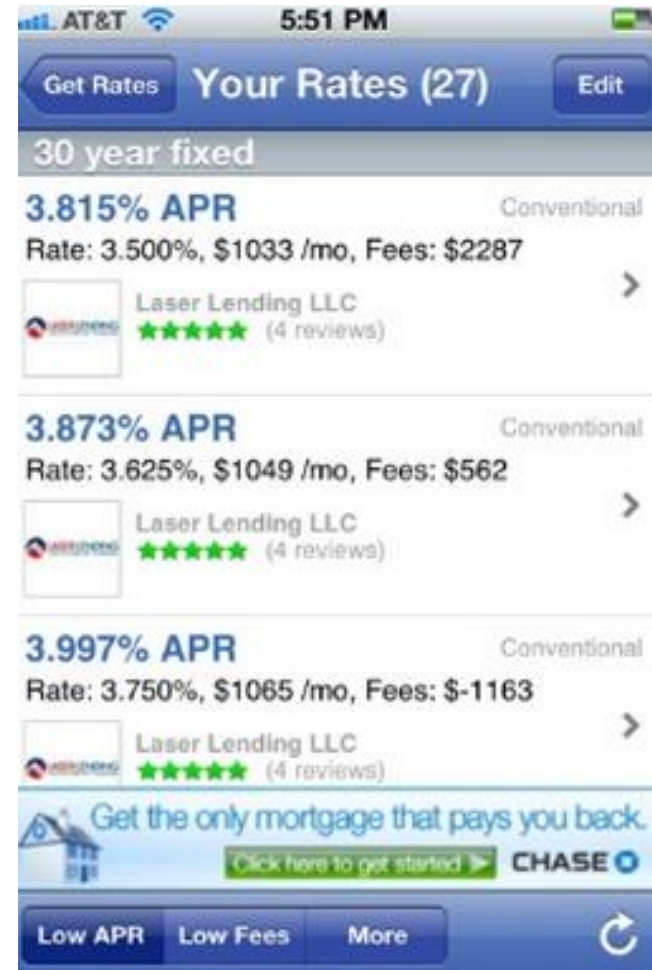
Zillow

8. Affiliated Sales

■ Earn a % on Purchases User Makes Through Your App

■ Low Margins 5% on $0.99 = 4cents

9. Analytics

- **People will pay for anonymous analytics data from your app**

- **Controversial but not against Apple's/Google's Standard TOS to collect**

Simple Nexus
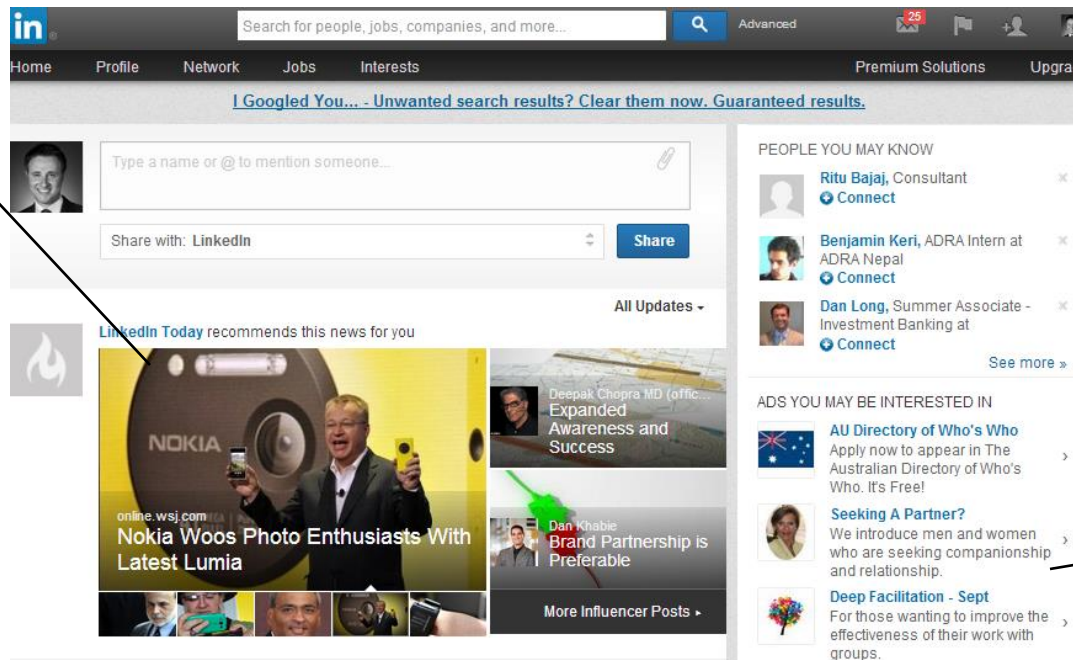
10. Don't Make Money

■ **Many Apps are not designed or do not need to make money**

  • Designed for marketing, as other associated service

  • i.e. Bank apps

■ **You can still make money**

  • Build them for people

  • Figure out how to make money later

  • Work for the people

Chase

Many Strategies

Freemium with Paid for Premium Features & Subscription

In App-Advertising

Analytics + Search Platform

to Recruiters

Review: Ten ways for you to make money with apps

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Monetization Consideration

- User Expectations

- Your Costs

- Market

- Do Some Math

User Expectations

- There is a race to the bottom - $1 is almost too much for some users

- Monetize and Price According to Category Expectations

  - Simple Apps = Free + In-App Purchases of Paid

  - Niche Apps = Paid w/ Higher Price?

  - News Apps = Advertising or Subscription

Understand your cost

- Once Purchase == Customer for Life???????

  - Do they expect upgrades/ new content/ etc

- Support, Infrastructure (Hosting, Bandwidth), API Fees, Partner Fees

  - Before Sale Instagram's Monthly Hosting Bill = 2 nice cares a month

  - Note if you have Instagram's volumes I would not worry about needing to pay a car a month. You will have multiple investors begging to give you money

Market Considerations

■ How many people in your target market?

■ Now how many of those people have a phone? an Android Phone? an iPhone?

■ Next, how many of those with Android pones will purchase your app?

■ Rule of 1%:

- 1.5m gardners, 15k w/ Androud Phones, 150 will buy my gardening app (maybe a bit harsh but nice rule of thumb)

- Luckily there are way more than 1.5m gardeners, and many more should have an android phone

Do some math

- 100 app downloads per day at $0.99 = $70 or $2,100 per month

- $2,100 per month = $24,200 (not much in the US)

- Thinking of doing Google Adwords? $0.25 per click + 25% conversion rate per click = Spend of $1.0 to make $0.70c

Parting Thoughts on Monetization Strategy

- Each monetization strategy may have different business marketing strategies

- Monetization strategies can be combined together

- Paid and advertising models are easy to try
  - Just remember to watch your costs

- Fermium is the most interesting space at the moment

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