MIT AITI Entrepreneurship Class

Session 7: Show Me the Money
Financing Mobile Apps

Think back:
What are the 3 ways Raj mentioned to finance Mobile Apps?
Financing Mobile Apps

• E – commerce
• Advertising
• Direct Consumer Pay
E-commerce

What's driving e-commerce adoption in small towns?

- Rising living standards
- Increased awareness
- Greater wireless internet access through mobiles
- New payment options
- Improving online availability
- Lack of good offline retail channels

But Very Capital Intensive!
Main Payment Models

• Paid Downloads
• Exclusive Sponsorship
• “Freemium” Model
• Sell Advertising Space
Today’s Class

• Forrester Research estimates that $17.5 billion worth of mobile apps will be sold this year across all platforms.

• Subtracting the cut that Apple, Google, and others get for placement in their app stores, that's at least $13 billion for developers to pocket.

• How do we ensure you get the biggest slice of the pie?
User Engagement Model

• **Low user engagement:**
  – Ad-supported model makes no sense, as you'll earn just pennies per user.
  – Better to Price at ~ Rs. 30/month
  – Even though sales at the paid price will be a fraction of the free, ad-supported version, the total revenues are likely to be larger.

• **High user engagement:**
  – News, sports scores, social feeds, or other information-stream-oriented app: advertising model makes much more sense.
  – You'll make more money from the many more impressions over the app's lifetime even at a few paise per impression than if you charged a one-time up-front fee.
Which begs the question ...

• What about high-engagement apps that aren't about information streams, where ads would be a turnoff? Ex. Angry Birds

• Combine a relatively low up-front price with app purchases for virtual goods (such as powers and hints in games) and additional functions
  – Ex. bookmarking of your favorite teams for a sports app or ad removal to convert a free trial app to a paid one

• Another advantage of in-app purchases is that billing is usually easy, either through the app store's own system or through an established provider such as PayPal that users likely already have a relationship with.
To select the best model

• Consider
  – Utility
    • how useful a person finds the app
  – Engagement
    • how often a person uses the app
  – Value
    • how much the person likes what the app provides relative to the other options
Free Model

- Mobile ad networks like InMobi and AdMob offer easy integration with apps, thereby helping you start earning your revenue almost immediately.
- Employing rich media ad networks such as Greystripe helps catch and sustain the interest of your viewers, even making them to return to you more often.
- The downside here is that they also can put a strain on your resources, both in terms of server space and finances.
- Getting sponsorship for a mobile app is the best way of getting assured high returns from it. Also, creating an app for the advertiser assures better integration of the app with the sponsoring brand.
- The downside with this is that the app has to be a perfect fit for the brand. This is definitely not for amateur developers.
‘Freemium” Model

• Offering both free and paid versions of the same app will help you maintain the free version without having to worry about its returns. Running a single ad network on the free version would mean easy integration without draining off your resources.

• People like free, even if they know there's money being made off them in some other way; thus, it's easier to market a free app over a paid app.

• The marketing cost shouldn't be your primary criterion; attracting a lot of users who aren't paying for an app or end up using it little, thus not getting you the ad or in-app revenues you counted on, doesn't make you the money you sought in the first place.
Other Models

- Interactive Advertising
- Merchandizing
- Microwork
- Gaming
- Drive Installs for Other Apps
Conclusion

• No matter your pricing model, remember one thing: The apps have to be good at what they do and how users engage with them.

• Quality still matters most to gain customer loyalty and referrals to their friends and colleagues.

• It’s absolutely worthwhile to spend the time and resources required to invest in solid analytics.