A WINNING COMBINATION
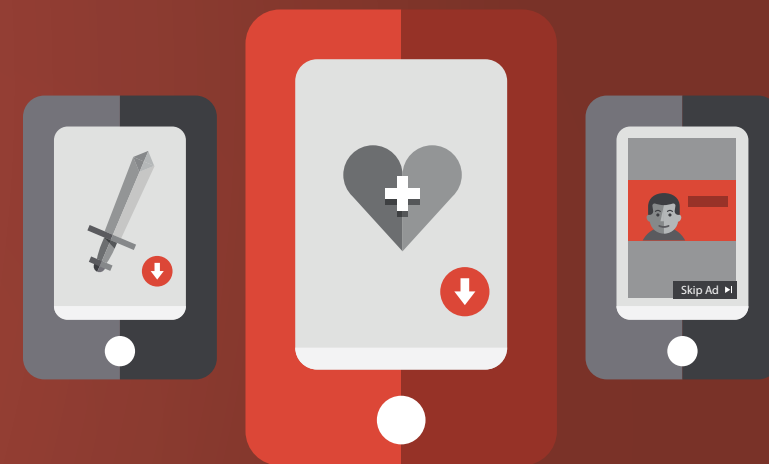
How using in-app purchases and ads together can maximize mobile game revenue

AdMob by Google

# Contents

Executive Summary

The vast majority of apps today are free. This is spurring innovation in how developers make money as they experiment with different business models that work for both their business and their users. Of these, the in-app purchase (IAP)* model has found favor among developers, in particular within games. Only a small percentage of users will pay for items in an app, however. According to Swrve[1], 2.3% of players made in-game purchases in January 2015.

Instead, developers can build monetization strategies which serve more of their users, maximize revenue, and deliver a sustainable business.

In this paper we'll explain how smart advertising strategies can be complementary to IAP. We'll provide an idea of the revenue uplift, and highlight success stories of developers who have adopted this combined approach.

* We focus mainly on consumable items that can be purchased repeatedly within the app.

HYBRID MONETIZATION

1/3 of developers use hybrid monetization
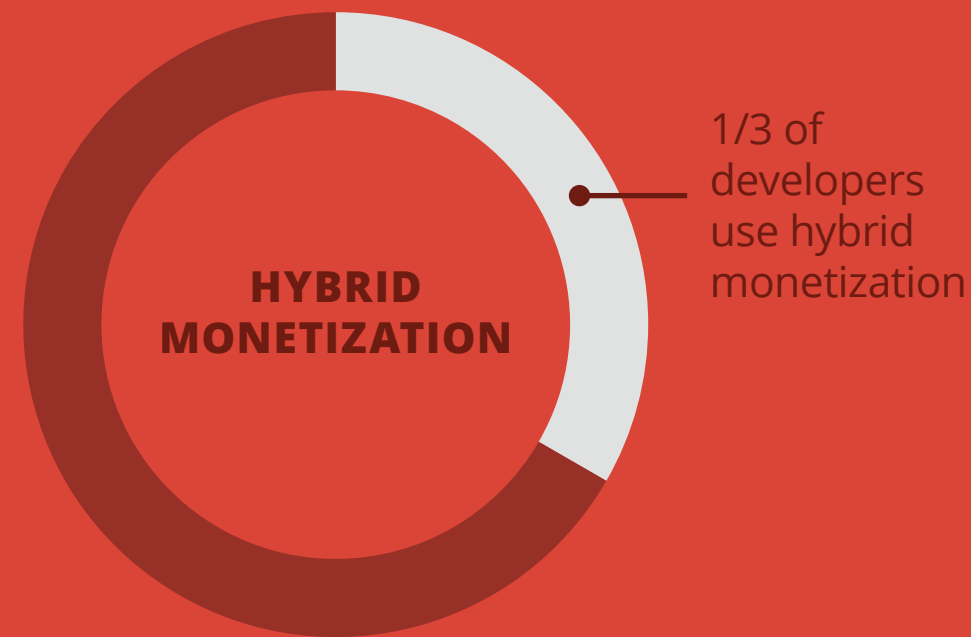
Source: Google/Ipsos Mobile App Developer Survey, September 2015 (n=175)

Read this paper to learn:

✔ What an effective hybrid monetization model looks like and the benefits it can deliver;

✔ How a hybrid model powered by smart user segmentation and targeting can generate revenue in ways that are positive for the developer and the user;

✔ Best practices from top developers on building an effective hybrid monetization model using IAP and ads;

✔ How AdMob's in-app purchase house ads can help you use hybrid monetization with minimal effort.

Key findings:

✔ Through analysis of over 10,000 top Android apps, we found that games can earn approximately 117% more revenue by adding ads to apps using IAP.

✔ The key challenge in testing the hybrid model is to properly segment and target users in order to provide a great experience for both paying and non-paying users.

✔ Our survey shows that a third of developers surveyed have embraced the hybrid monetization model, which enabled them to monetize more users in a way that optimizes for user experience.

Making money in a world of free apps

We live in a world of apps: apps to play games, track our running times, even control our thermostats! By 2017, 94.5% of app downloads are forecast to be free[2], so developers need to spend time developing a robust monetization model that takes into consideration the spending preferences of all users. The best approach is one that provides a relevant experience for users and ultimately generates revenue for developers.

Since the introduction of smartphones and apps, developers have experimented with different ways to make money. Many have shifted from a premium model – requiring upfront payment – to a freemium or ads-supported model. Today, in-app ads and freemium (free download with IAPs) fuel the growth of mobile app revenue, growing at 71% and 72% respectively from 2013 to 2014[3]. Using a hybrid approach – monetizing through both IAPs and ads in the same app – can equip your app with two powerful engines to maximize revenue.

What is hybrid monetization?

Hybrid monetization combines customized and targeted in-app purchase offerings with relevant ads in a variety of formats, with the goal of maximizing revenue and maintaining an experience to keep app users engaged.
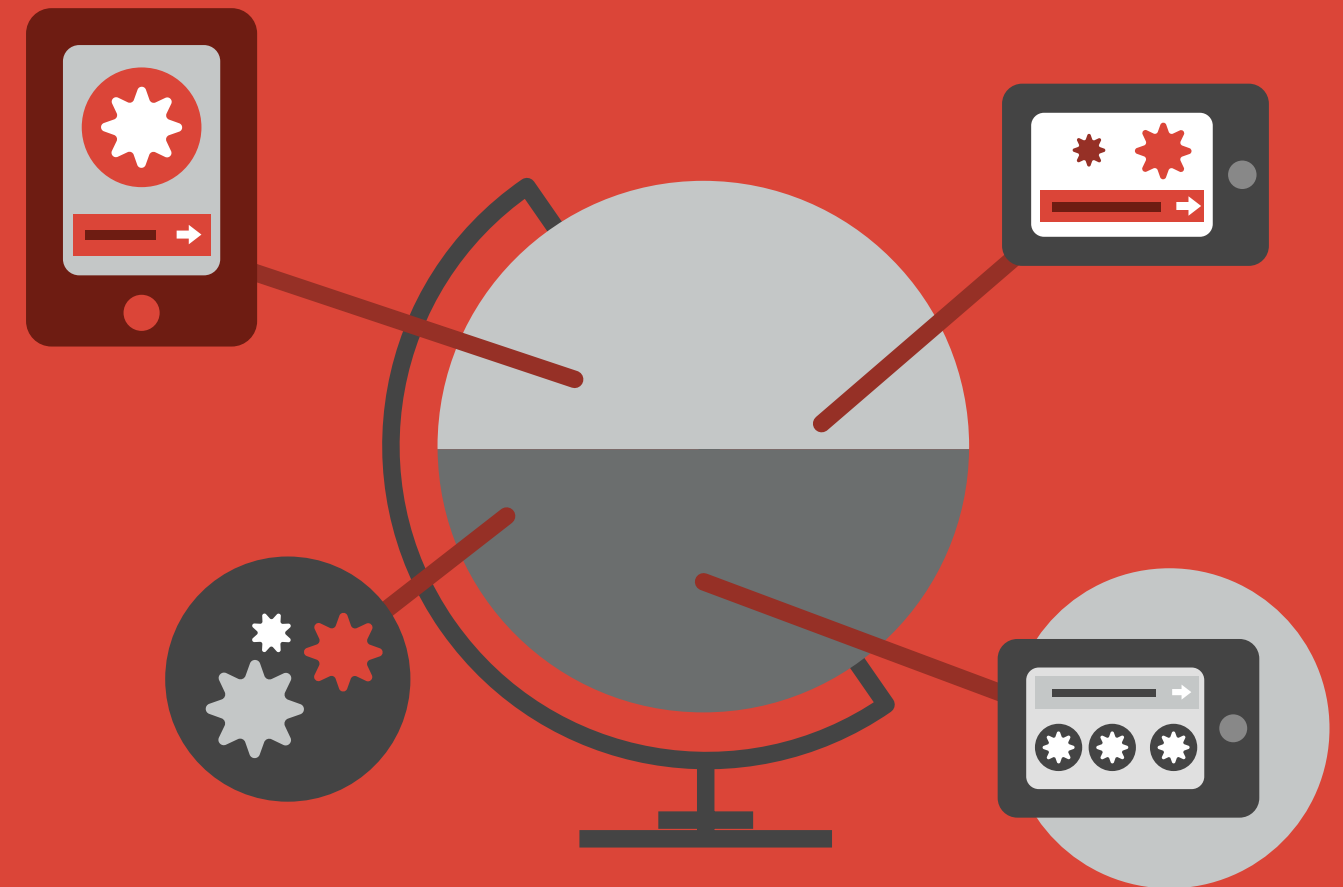
3 characteristics of the hybrid model

Hybrid monetization combines customized in-app purchase offerings with relevant ads in a variety of formats. The goal is to maximize revenue while providing a positive experience that keeps the user engaged in the app. An effective hybrid monetization model has the following characteristics:

Data-driven:
Using data to understand and predict user behavior and to segment and target users is at the core of an effective hybrid monetization strategy.
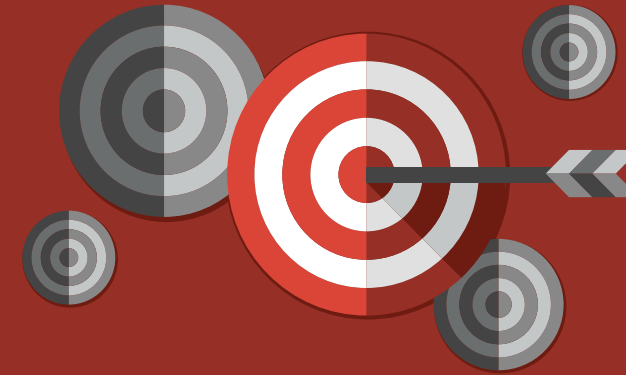
Real-time targeting:
This model should target users in real time at each appropriate monetization window, and require minimal manual adjustment and maintenance to fine-tune the IAP logic.

Revenue maximization:
Ultimately, hybrid monetization will strike a good balance between IAPs and ads and maximize each revenue stream. By promoting IAP items to potential spenders and serving ads to different segments of users, developers can make the most out of the time a user spends in the app.

The dynamics of hybrid monetization

Both IAPs and ads have contributed to the success of many games in the market. Combining them, with the help of user segmentation and targeting, diversifies revenue and provides a sustainable business model.
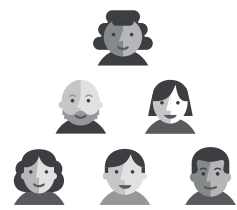
> A hybrid monetization strategy can provide the benefits of both IAPs and ads to fully monetize different users with different levels of engagement.

To better understand the potential of hybrid monetization, we studied aggregated monetization data in July 2015 from more than 10,000 top Android apps. We used estimated in-app ads revenue share as a proxy for additional revenue the hybrid model can generate compared to using IAPs alone. We found that for games, the hybrid monetization model can potentially earn 54% revenue from in-app ads on average, which is a 117% increase in revenue compared to IAPs alone. Using this model to look at non-game apps, ads revenue could make up 63% of total revenue[†].

For games, the hybrid monetization model can potentially earn 54% revenue from in-app ads on average. This is a **117% increase in revenue compared to IAPs alone**.

POTENTIAL IN-APP AD REVENUE SHARE [‡]

- ✔ **Casual games:** 78%
- ✔ **Action games:** 74%
- ✔ **Strategy games:** 37%
- ✔ **Role playing games:** 17%

For games, the hybrid monetization model can potentially earn 54% revenue from in-app ads on average. This is a **117% increase in revenue compared to IAPs alone**.

[†] We used estimated in-app ad revenue share as the proxy to estimate additional revenue the hybrid model could bring compared to an in-app purchase only model. In-app ad and in-app purchase revenue ratio depends on ad impression, eCPM, average in-app purchase revenue per paying user and the percentage of paying users. Based on these data from the top 10,000 Android apps, we created an average profile of an app for different genres and calculated its revenue breakdown. We assume that the paying users usually make up 5% of the total users and that no ads are served to paying users. The ads revenue share is estimated to be 54% of total hybrid model revenue for gaming apps; for non-gaming apps, 63%. Data source: Google, App Annie. Time period: July 2015.

[‡] Game categories are based on Google Play definition.

What do developers say about a hybrid approach?

According to a recent study[4] AdMob conducted with Ipsos, developers are looking for ways to grow their businesses and the hybrid monetization model is gaining interest:

90% 90% of developers surveyed say their apps have the potential to generate more revenue.

33% One in three developers surveyed is currently using a hybrid model, earning 65% of revenue from ads on average.

24% 24% of developers surveyed think that the hybrid model has the potential to earn the most revenue, the second highest after in-app ads (43% of developers surveyed) and more than twice as much as IAPs (10% of developers surveyed).

$+$ The main reason for choosing the hybrid model is that it monetizes non-paying users and provides a good combination of two sources of income.
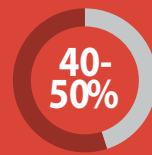
TOP DEVELOPERS

Developers who go hybrid are seeing significant revenue from ads

30% Mobirix, a developer based in Seoul, earns 30% of total revenue from in-app ads for one of its globally-launched simulation games.

50% Blastworks from Seattle generates 50% of total revenue from in-app ads for one of its top puzzle games.

40-50% Tel Aviv-based developer, TabTale, who has a large portfolio of apps, earns 40% to 50% of its revenue from in-app ads.

"Paying users and non-paying users are two distinct groups, so in-app purchases and in-app ads will not cannibalize each other's revenues. As a game matures its ad revenue usually grows, leading to an even balance between the two revenue streams over time."

- ANIMOCA BRANDS

"[Adding ads to IAP] is just an easy lift to your game. It complements the IAP revenue that we drive."

- BLASTWORKS

"In-app purchase revenue is mostly influenced by the game quality and how IAPs are designed. Adding ads into the mix doesn't impact IAP revenue. If you don't have the budget for massive marketing campaigns for acquisition to boost IAP revenue, a hybrid model can provide a steady cash flow."

- MOBIRIX
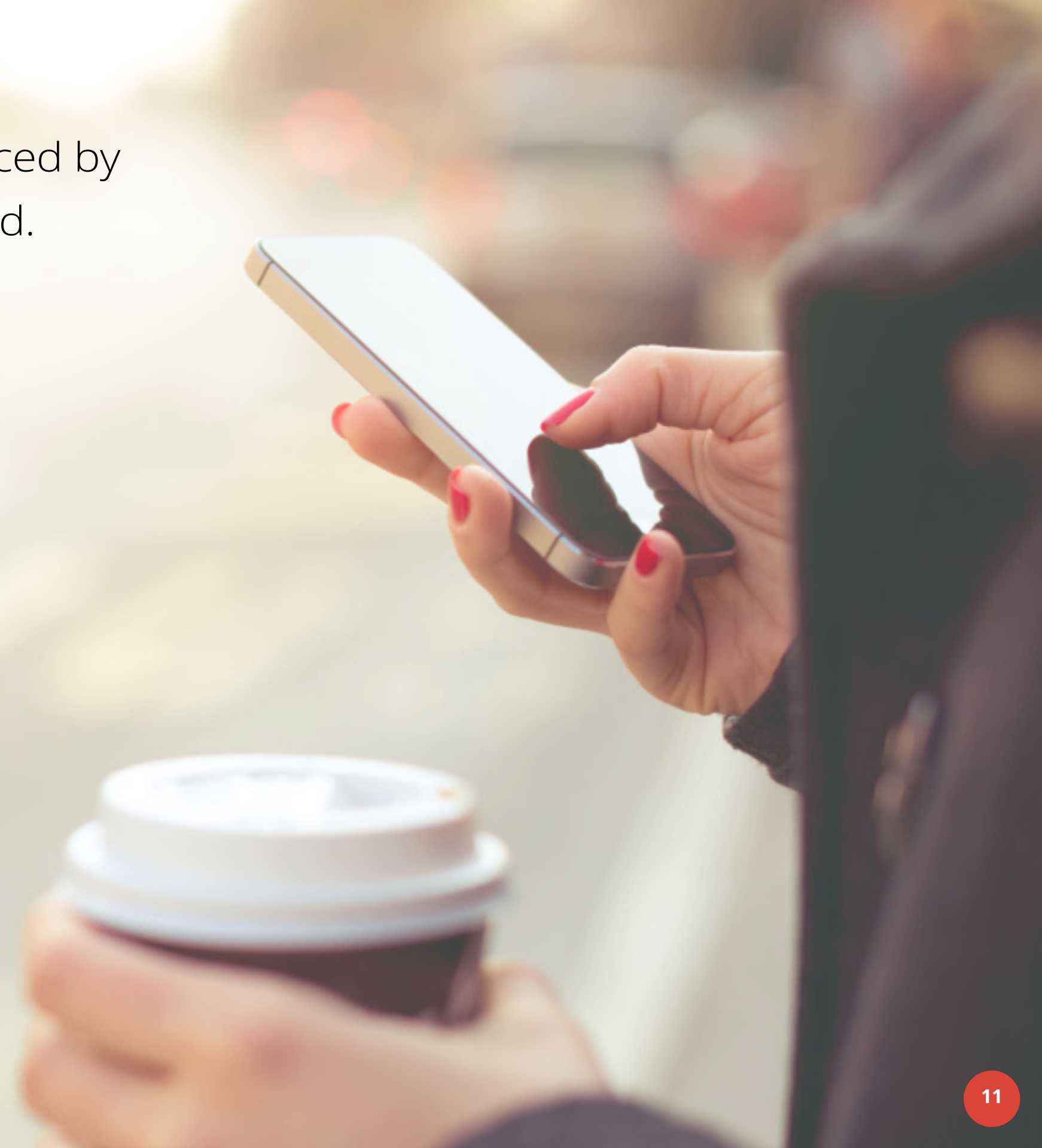
The principles of building an effective hybrid monetization strategy

To build a strong hybrid monetization strategy, developers need to:

✔ Identify the signals required to segment users and predict their purchasing potential.

✔ Optimize the format, timing, frequency, and placement of each monetization opportunity, whether it be an IAP item or a regular paid ad.

✔ Build or find the tools to automatically target the right users with the right monetization opportunity in real time.

A framework for segmenting users

Here are some ideas for segments based on spend potential and engagement, and how each segment can be treated:

Learners: Tutorials, free gifts, few to no ads or IAP promotions can help these new users become familiar with a game quickly. To retain users that are likely to stop playing, developers can re-engage them with new characters, items, or events or steer them to other games with cross-promotion house ads.

Burners: For these users who burn time in your game but don't spend, you can monetize them with ads. In addition, IAPs can be strategically promoted when the user is stuck at a level. You can also encourage social sharing by these users by rewarding them with free gifts to keep them engaged.

Turners: For users with high-spend potential but less activity, the goal is to turn them into active users and high spenders. When they become loyal users, they are more likely to spend. You can target these users who have reached a certain level with a promoted IAP item or show them new in-game events or new feature demos. If they remain unengaged, limited-time offerings can be promoted or they can be steered to another game with cross-promotion house ads.

Earners: You should optimize your IAP strategy to maximize revenue for this group. Strategies include promoting high-value IAPs to these users to maintain their engagement and increase average revenue per paying user.

Engagement

HIGH

BURNER   EARNER

LOW .... HIGH
Spend
Potential

LEARNER   TURNER

LOW
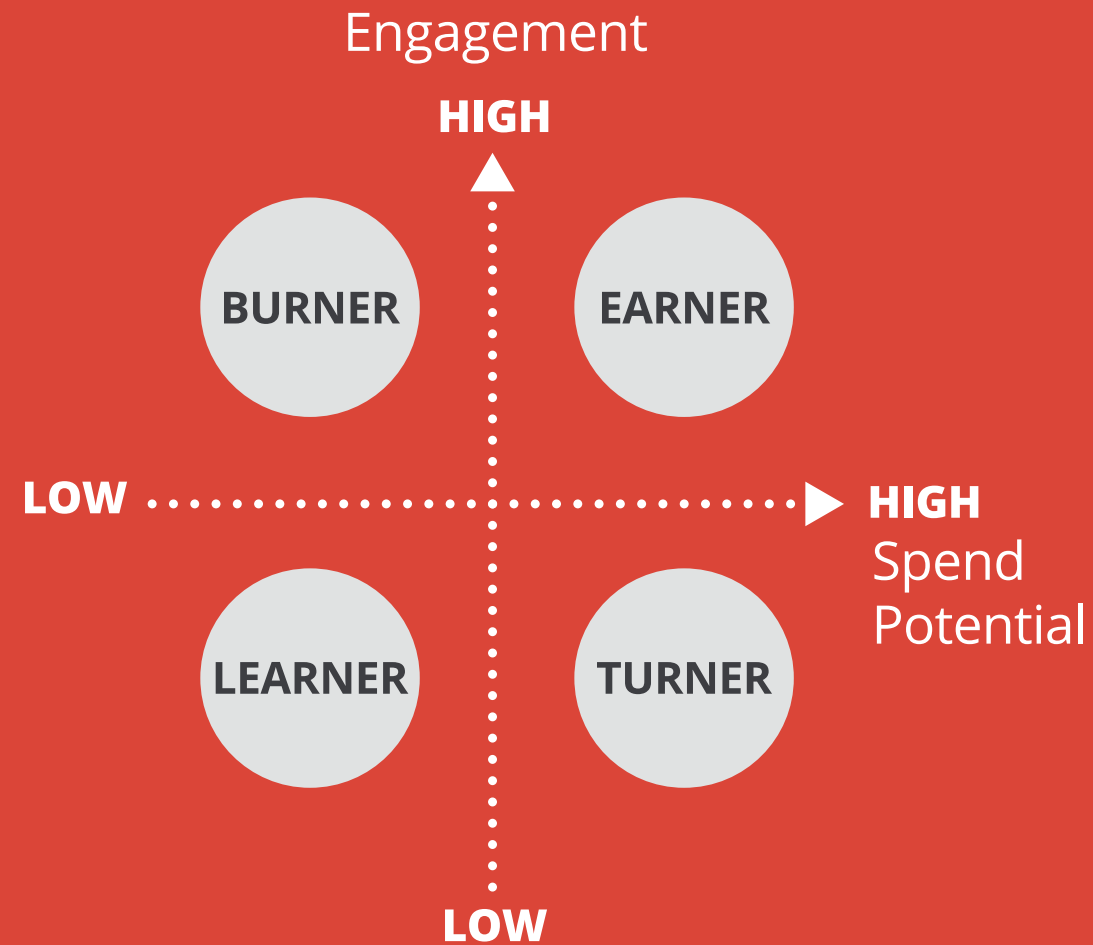
Engagement measures how active your users are in playing your game.

Spend potential measures how likely the users are to spend (or spend more) in your game.
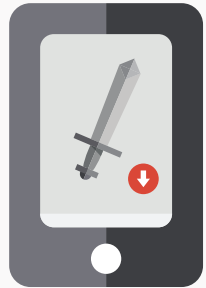
"We tried IAPs only and compared it with IAPs with ads, and we found that [hybrid monetization] is the optimal way for most of our apps."

- TABTALE

Best practices from developers around the world

We interviewed top developers around the world who use the hybrid model to monetize their games and summarized their best practices:

Go hybrid at launch. IAPs and ads should be designed as part of the app experience from the beginning. Changing monetization later could disrupt the user experience and result in upsetting loyal users' expectations. Half of the developers we surveyed implemented the hybrid model at launch.

Go hybrid if launching globally. Mobirix uses a hybrid model for Zombie Hive, a game launched for global markets. Users in some markets don't have a method to make payments. Only 10% of adults report having a credit card in developing economies[5]. Using hybrid monetization can turn these users into revenue contributors if they engage with ads.

Run experiments. Use data to validate how to balance IAPs and ads. Blastworks runs multiple A/B tests with newly installed users to decide what ads to show among interstitial, banner, and rewarded ads and how frequently to show them. Whichever performs better in terms of monetization and retention wins.
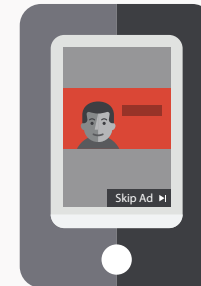
Try different ad formats. Animoca Brands, a Hong Kong-based developer and publisher behind the Garfield series of games, implemented native ads and has seen great results. Blastworks used rewarded ads and optimized their frequency to maximize total revenue.

Optimize the timing of ads. In addition to not showing ads to paying users, developers can turn off ads for new users if they don't know enough about them. They can turn ads back on when users reach a certain level in your game, but still haven't made a purchase. Besides showing interstitials at game-break time, show them when users accept free gifts, for example.

BONUS IAP TIPS

Simplify the in-app purchase process. Create tutorials to show users how to buy and how to use what they pay for. Give them free currency to get started. Remove what doesn't sell.

Update with new items regularly. Updating your game with new IAP items, as well as free content such as free maps or levels, usually boosts IAPs and can re-engage users.

Be strategic about the pricing. Animoca Brands consults the Purchasing Power Parity exchange rate to help price their IAP items in other countries.

How AdMob helps developers combine IAP and ads effectively

Building a sustainable business from both IAPs and ads is likely to be more common as developers become more familiar with the tools available to implement hybrid monetization in a seamless way that benefits both developers and users.

AdMob's smart monetization platform offers tools to help developers make money by providing:

- Access to real-time ads from millions of advertisers

- Actionable data and insights for user segmentation

- Automated targeting of spenders or potential spenders

You can create an effective hybrid model easily and quickly with AdMob's IAP house ads. This ad format, powered by Google algorithms, enables you to target potential spenders with customizable IAP offers while serving regular ads to users predicted to be unlikely spenders.


Target the right users at the right time with the right monetization opportunity

CASE STUDY: [Lunosoft](#) achieved 31% IAP revenue uplift and 579% total revenue uplift with AdMob's in-app purchase house ads.

South Korean developer Lunosoft recently tested two monetization models, as demonstrated in the chart below. Test #1 uses only IAP to monetize for 6 days. Test #2 uses hybrid model with both IAP and ads for 4 days.
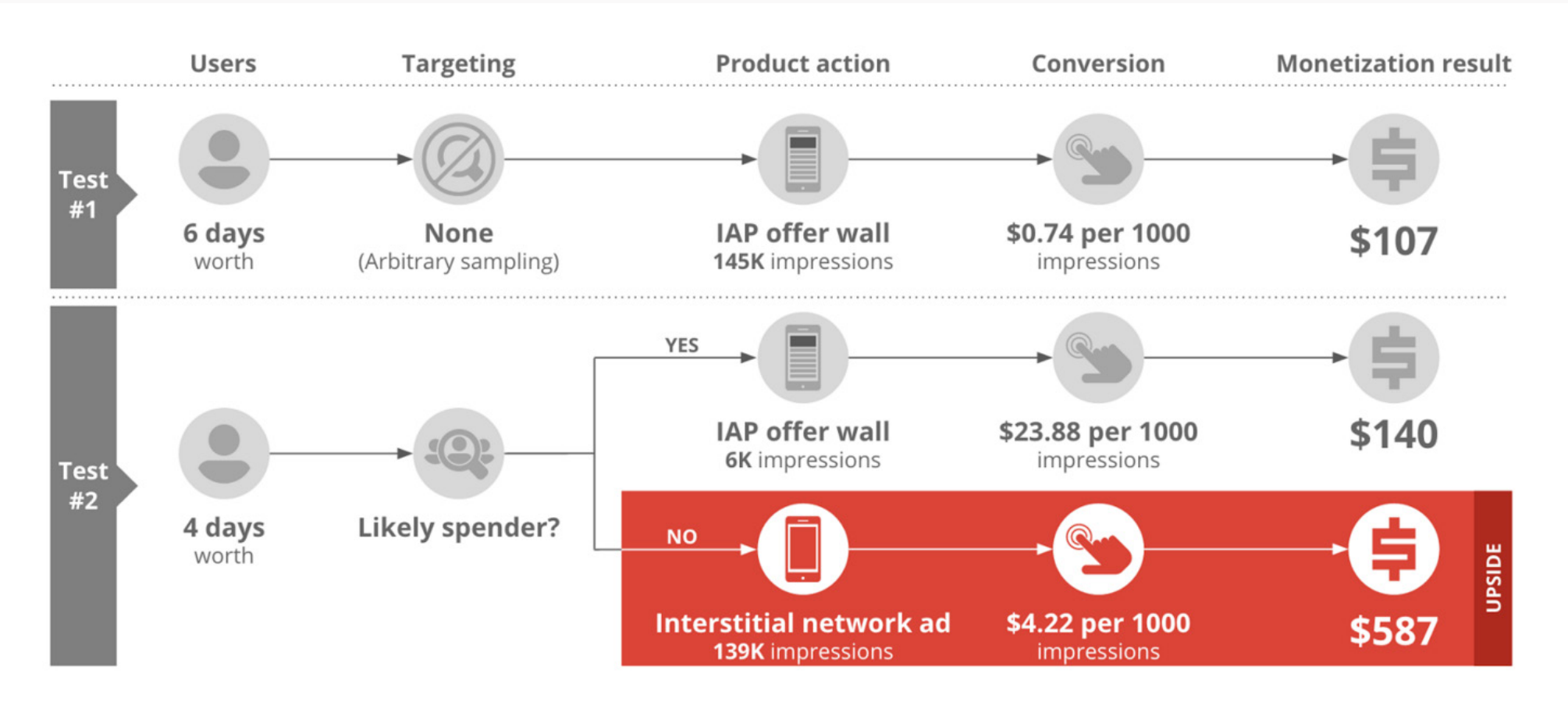
- **Test #1 - IAP only:** IAP offers were shown to a random sample of users and were viewed 145K times, generating $107 with $0.74 per 1000 impressions.

- **Test #2 - Hybrid model:** AdMob IAP house ads were used to implement a hybrid model. IAP offers were viewed 6K times, much fewer than Test #1, but more targeted to the high-spend potential users, generating $140 with $23.33 per 1000 impressions. Ads filled the remaining 139K impressions and generated $587.

With AdMob's IAP house ads, there's no need to build models, crunch data, and build an automated system on your own to target likely spenders. AdMob can do the heavy lifting for you.

Sign up for AdMob and go hybrid now

Resources:
Step-by-step AdMob IAP house ads implementation guide
Case study of Gun Fu: Stickman 2

Special thanks to the following developers:

Animoca Brands

Blastworks Inc.

Clapfoot

Gazeus games

Lunosoft Inc.

MAG Interactive

Mobirix

Ratrod Studio Inc.

Tabtale

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5. The Global Findex Database 2014, April 2015