



Mobile App Advertising and Monetization Trends 2013-2018: Freemium and In-App Ads Expand Their Lead

March 2015

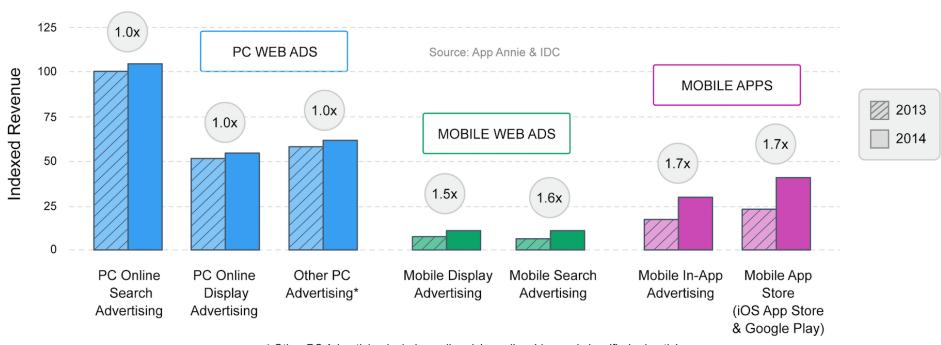


- 1. Assessing the Current Opportunity for Apps
- 2. Selecting the Right Business Model for Your Apps
 - a. Freemium
 - b. In-App Advertising
- 3. Choosing Which Markets to Target
- 4. Planning for the Future
- 5. Key Takeaways



Mobile apps continue to outpace both PC web and mobile web advertising

Worldwide Online Advertising and Mobile App Revenue: 2013 to 2014



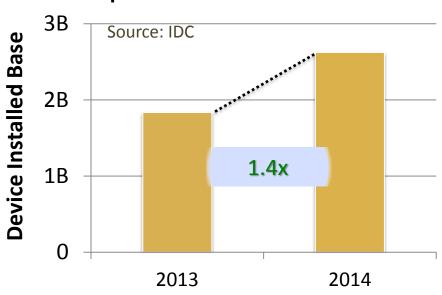
^{*} Other PC Advertising includes online rich media, video and classified advertising

 Mobile in-app advertising is expected to continue taking revenue share from PC advertising as advertisers allocate their budgets for maximum return

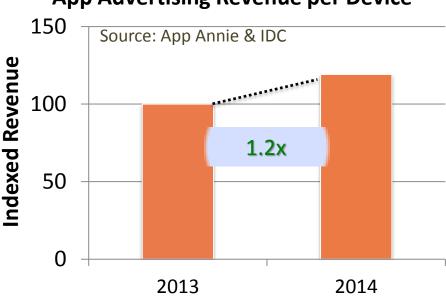


Mobile app revenue opportunity is rapidly expanding due to gains in device adoption and revenue per device

Worldwide Combined iOS and Android Smartphone and Tablet Installed Base



Worldwide Combined App Store and In-App Advertising Revenue per Device*



*In-app advertising across all app stores; app store revenue across iOS App Store and Google Play

- Massive growth in the number of smart mobile devices dramatically expands the potential app audience
- Increasing revenue per mobile device magnifies the impact of growing device adoption, accelerating the growth of the overall monetization opportunity



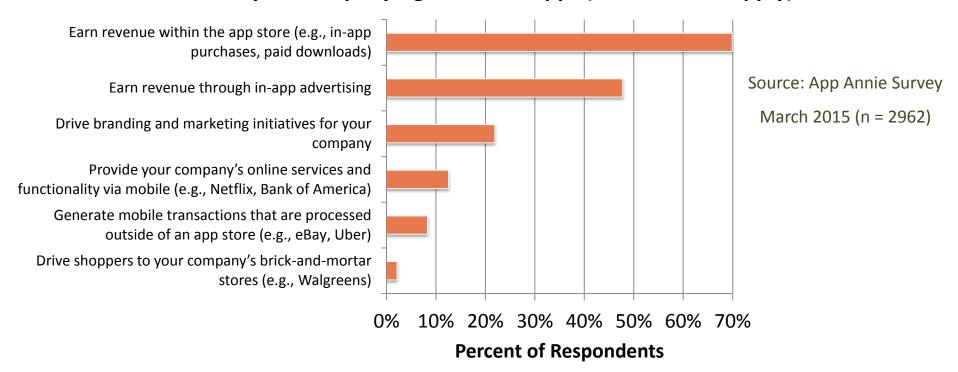
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Apps can achieve a variety of goals for publishers, though earning revenue is the clear favorite

What are your company's goals for its apps (select all that apply)?



 In addition to generating revenue, driving corporate branding and marketing initiatives is an objective for many app publishers



Choosing the business model that is best suited for each app and its target audience is critical for success

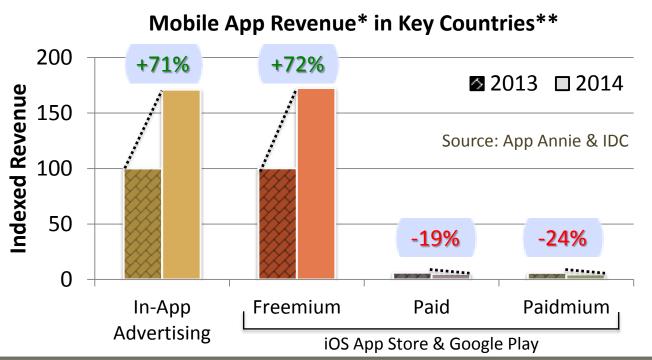
Business Model	How does it work?	Top 3 Apps by iOS and Google Play Revenue in 2014*
Freemium	Free download with in-app purchases.	Clash of Clans Puzzle & Dragons Candy Crush Saga
Paid	Paid download with no in-app purchases.	Minecraft – Pocket Edition Grand Theft Auto: San Andreas Terraria**
Paidmium	Paid download with in-app purchases.	Card Wars Order & Chaos Online** Plague Inc**
In-App Advertising	Contains ads (banner ads, video ads, etc.).	N/A
Dynamic	Business model shifts depending on certain factors (app shifts to an ad-supported model if the user does not make in-app purchases, etc.).	N/A

^{*}Based on <u>App Annie Intelligence</u> estimates

^{**}If an app used multiple business models or switched business models during 2014, the app's ranking for any particular business model was solely based on the portion of its revenue that was generated by that business model



Freemium and In-App Advertising expand their massive lead over other app business models



- * In-app advertising across all app stores; app store revenue across iOS App Store and Google Play
- ** Brazil, Canada, France, Germany, India, Japan, Russia, South Korea, United Kingdom & United States

- Freemium and In-App Advertising appeal to a broader user base by eliminating up-front costs and create ongoing revenue streams for publishers
- Paid and Paidmium revenue both continue to substantially decline, though they can still be successful for the right apps



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Publishers need to select the freemium technique that aligns best with each app and its user base

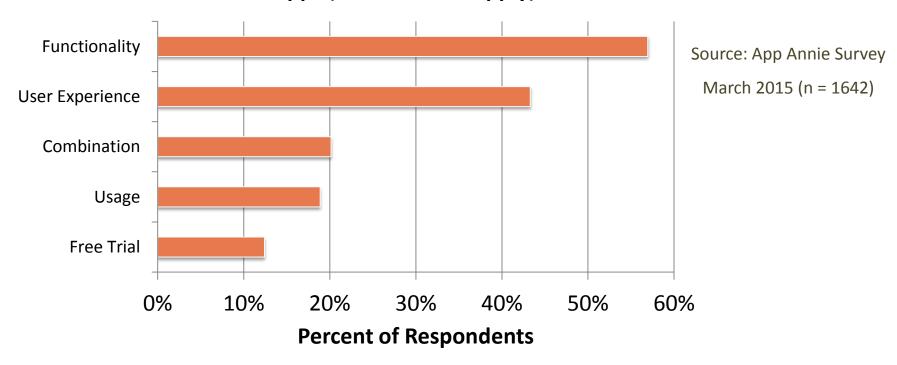
Freemium Monetization	Value Proposition	App Examples*
Usage	Free app offers limited usage, bandwidth, hours or storage space. Pay to raise or remove those limits.	NYTimes Pandora Radio
Free Trial	Free app offers full functionality for a limited amount of time. Pay to continue using after time period is up.	WhatsApp Messenger SwiftKey Keyboard
Functionality	Pay for virtual items, speed-ups, content, add-ons, upgrades, services or capabilities.	Clash of Clans LINE S Skype
User Experience	Free app is ad-supported. Pay in-app to remove ads or through a separate paid download.	New Words With Friends Trivia Crack
Combination	The app uses a combination of the above.	Evernote (Functionality and Usage)

^{*} Additional information on these apps available on App Annie Store Stats



Functionality continues to be the most common value proposition used by freemium app publishers

How does your company monetize its freemium apps (select all that apply)?

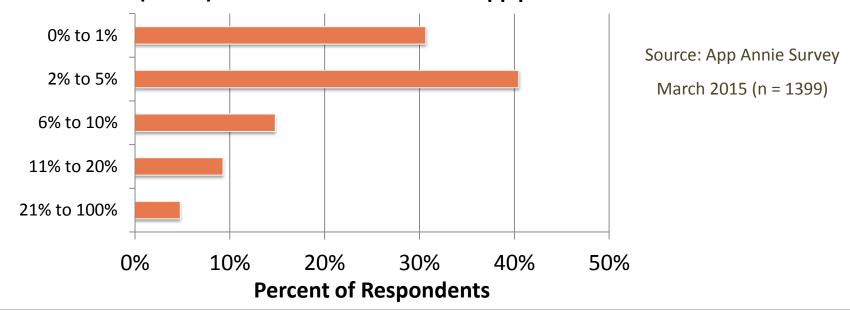


 Compared to last year, a higher share of publishers surveyed monetized via functionality and free trial; the other value propositions stayed relatively flat



The freemium model is very successful, even with a small proportion of users making in-app purchases

Please estimate the percentage of your freemium apps' monthly active users (MAUs) who make at least one in-app purchase:



- Publishers can structure their apps to target the whales who make repeated purchases
- Compared to last year, the share of publishers answering 2% to 5% increased, while the share answering 0% to 1% decreased by about the same amount

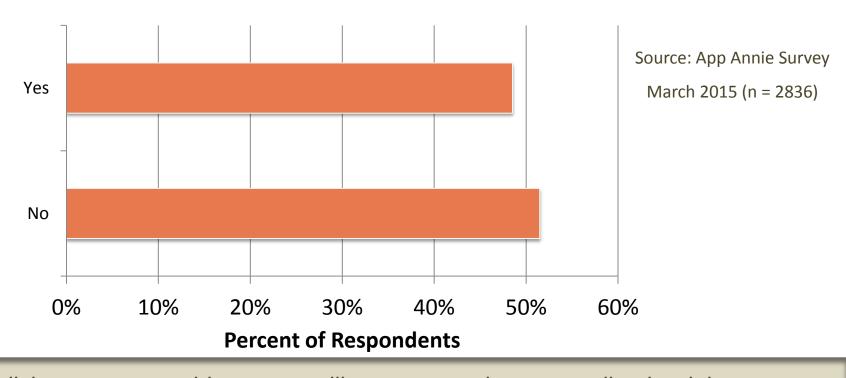


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49% of publishers surveyed use paid advertising within their apps, up from 42% last year

Does your company display paid advertising within any of its apps?

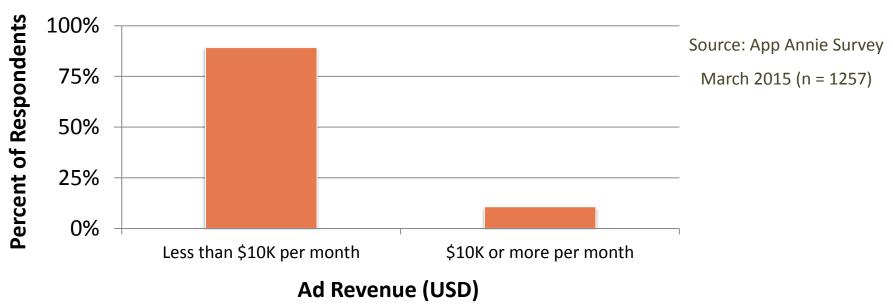


 Publishers must consider aspects like user experience to strike the right balance between monetizing through app stores and monetizing through in-app advertising



Publishers need to be strategic in order to make their apps stand out in the competitive mobile app market

In an average month, how much revenue does your company earn from in-app advertising across all of the apps that it manages or publishes?



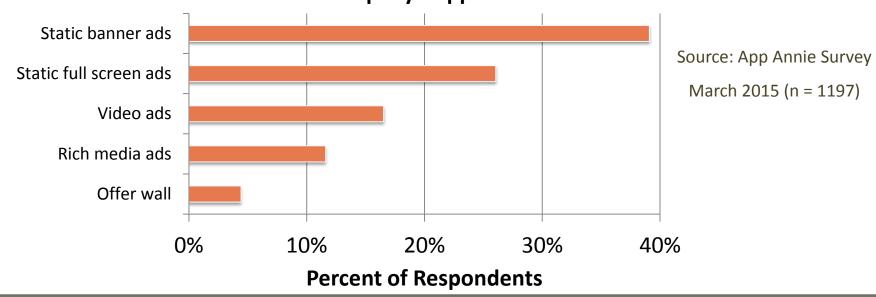
- Less than 15% of publishers surveyed make \$10K per month or more from in-app advertising
- A well-executed approach to app discovery, user acquisition and user engagement can help drive a successful app monetization strategy





Picking the proper format is key to maximizing in-app advertising revenue

Which of the following in-app ad formats earns the most revenue across all of your company's apps?



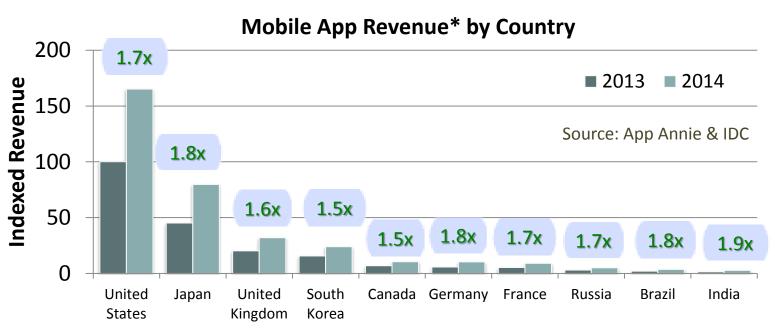
- Static banner ads and static full screen ads are the highest earning formats for majority of publishers surveyed
- Publishers making at least \$100K per month from in-app advertising more frequently reported that video ads or offer walls generated higher revenue volume than other ad formats



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Analyzing a country's monetization potential is a critical first step when selecting which markets to enter

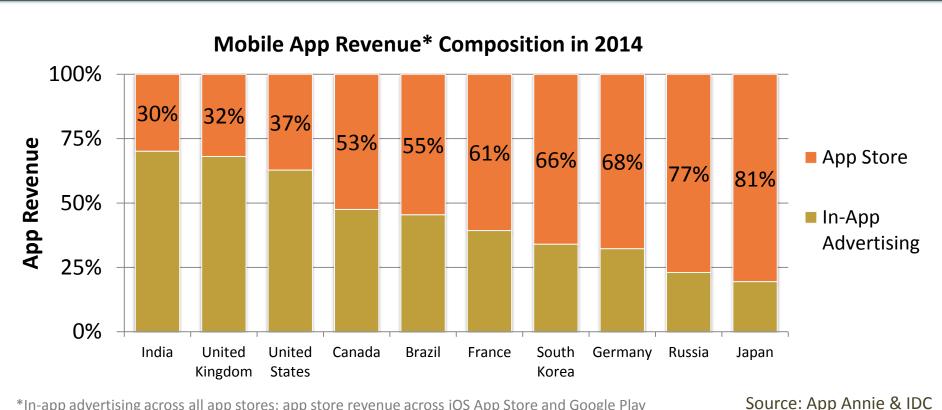


*In-app advertising across all app stores; app store revenue across iOS App Store and Google Play

- United States and Japan had the largest absolute mobile app revenue among the 10 key countries, but all experienced significant growth
- App downloads in Russia, Brazil and India have exhibited impressive growth, but overall revenue volume lags behind developed markets



Publishers should carefully select the mobile app business model that best fits their target markets



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One size does not fit all; the share of revenue generated through the app stores versus in-app advertising can widely vary across countries



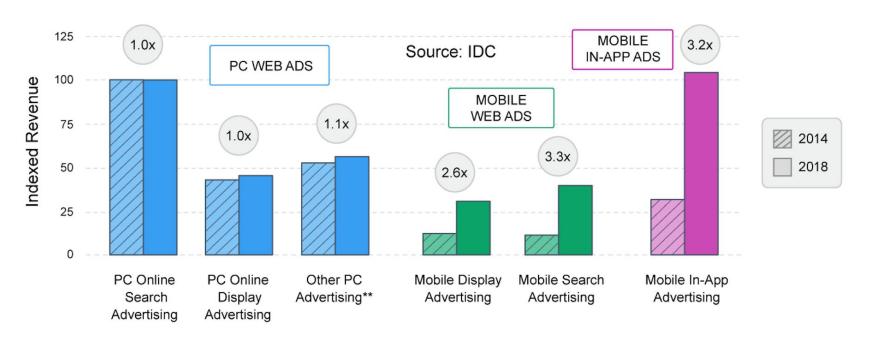
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Mobile in-app advertising revenue to pass each type of PC and mobile web-based ads by 2018 for key countries

PC and Mobile Advertising Revenue in Key Countries*: 2014 to 2018



^{*} Brazil, Canada, France, Germany, India, Japan, Russia, South Korea, United Kingdom & United States

- Mobile in-app advertising revenue continues to outperform previous forecasts
- For more information regarding forecasts, please contact <u>IDC</u>

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Key Themes & Takeaways

- Mobile app stores (iOS and Google Play combined) and mobile inapp ads each grew revenue by 1.7x from 2013 to 2014
- The above channels continue to outpace PC web and mobile webbased ads, which grew revenue by about 1.0x and 1.5x, respectively
- Freemium and in-app advertising drove an increasingly large share of mobile app revenue
- Mobile in-app advertising revenue is projected to pass each type of PC and mobile web-based ad by 2018 when looking at combined revenue across key countries*



Key Themes & Takeaways (Continued)

- The emergence of wearables and Internet of Things provide even more upside in the opportunity for app revenue; this coupled with new applications across mobile will drive revenues even higher
- Publishers should consider different business model strategies depending on the geographic region; India skews toward in-app advertising, while Japan skews toward app store revenue
- Static banner ads and static full screen ads generate the most overall revenue, compared to other in-app advertising formats, for the majority of publishers surveyed

QUESTIONS?





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