

# A Pricing Conundrum

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# About **RED**

# The Weird World of Chips & Apps



Apple App  
Store



Google  
Play



Windows  
Store

# The Competition is Vast



## 1.25 million+ apps on the Apple App Store

- Number of Apps downloaded: 60 Billion
- The average app has been downloaded 48,000 times



## 875,000+ Android Apps



## 160,000+ Windows Apps

# Bigger Pond, More Fish

Almost 2,500 new apps are published every day.



**41% Published on iOS**



**47% published on Android**



**12% published on Windows**

# The Sad Truth



Apple App  
Store



Google Play



Windows  
Store

**Average revenue per app:**

\$4,000

\$1,125

\$625

**Average revenue per developer:**

\$21,276

\$6,000

\$2,222

# Direct Revenue is Not Always Primary

Marketing Apps are typically about building brand affinity and awareness, not generating revenue.

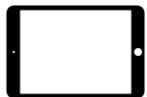
Some brand apps are mostly about adding value to the customer (American Airlines, Wells Fargo, Netflix).

# Free is on the Rise

Analysis of 350,000 apps over four years. The percentage of free apps has risen steadily since 2010. Today, 90 percent of apps are available for free, while 6 percent are available for \$0.99. In 2011, 80 percent of apps were free and 15 percent of apps were available for \$0.99.



The average cost of an iPhone app is \$0.19



The average cost of an iPad app is \$0.50



The average cost of an Android app is \$0.06



# Too Many Die Fast

**“Dead Apps”** = Less than 10 reviews and never been updated.

About half of all apps will never be updated – a clear indicator that usage is very low.

## Dead Applications:



Apple App  
Store

65%



Google Play

41%



Windows  
Store

69%

Apps typically get most of their reviews within the first couple of weeks. The average iOS app gets 80 percent of its reviews in the first 18 days after launch. Android get them in 16 days and Windows Phone in 13 days.

# First Gather Data & Form Insights

## Research Your Audience

Don't forget the users when you make your pricing decision.

- Will your users pay for your app?
- Would they be annoyed with ads?

Who are they and what content do they interact with most?

## Study Your Competition

What other apps are out there?

How much do they cost and how are they selling?

Should you charge less than competitors to attract more users or charge more to help demonstrate that you have a better app?

## Define Your Expectations

Maximize market share or high profit margins?

Make revenue from the app itself or build value in the IP by maximizing the number of users?

**BUT NOTHING ELSE  
MATTERS UNLESS YOU  
LAUNCH A GREAT APP**

# Pricing Models

# Models

**Free** Give it away with the plan of building a brand and audience.

**Free with Ads** Give it away, but integrate with an ad platform (iAd, AdMob) to generate ad revenue. High volume goes a long way here.

- **Minimize Disruption:** According to Forrester Consulting, 70% of the people surveyed stated that they found automatically served in-app ads to be disruptive. But the more relevant the ads are to the app, the more likely users will engage with them.

**Free then Paid** Give it away with limited features or with ads, then charge for the full or ad-free version.

- Users always like a chance to sample an app before paying.
- This allows for an initial influx of users and positive reviews, and then maximizing revenue after building an initial audience.
- Avoid making the free version too robust, as users may feel no reason to upgrade.

# Models (Continued)



## **Paid** Users pay once to download.

- The lower the price, the more downloads you get.
- Most branded IP with existing followings launch their apps as paid (Duck Dynasty).
- Developers can launch an “improved” version of an app under a revised name and charge for it. This is typically done to avoid the “updates for free” rule.
- **It's easier to take away than to add** - When setting your price, it's sometimes better to err on the side of more than less. Users may be more likely to accept a price drop than a price jump. Starting higher also gives more opportunities for promotions.
- **Paid, with in-app purchases**

# Models (Continued)



## Freemium

The crown jewel of models. Give it away, then charge within the app for more features and content. Today, each of the 25 Top Grossing iOS apps have a Freemium model.

Examples of In-app Purchases:

- **Consumables:** these can be bought over and over (coins, ammo, life points, power-ups)
- **Non-Consumables:** these are purchased only once (new levels, key features)
- **Services & Subscriptions** (Spotify, Time Magazine, New York Times)
- **Transaction fees** (Uber)
- **Sales of physical products** (Amazon, Best Buy)



# **So how should you price your app?**

Price with research & insights.  
Refine with science.



# Let it Fly in Canada or Australia

One strategy is to launch in Canada or Australia first, get a good sample of users (20k to 200k), optimize and debug the app, then expand into major territories utilizing your initial metrics.

# Pricing is Not Permanent

**Price changes** should be planned and should be rooted either in marketing or as a reaction to your market and sales volume.

**Promotional opportunities** for price changes: help boost installs and raise awareness with sales (“Free for a Limited Time”), discounts, coupons and giveaways.

**Price fluctuations** are often noticed by the blogosphere (Apps Gone Free).

# Metrics to Watch

- Lifetime Installs / Number of Downloads
- Daily Average Users (**DAU**)
- Monthly Average Users (**MAU**)
- Average Revenue Per User (**ARPU**) - typically calculated per day or per month
- Lifetime Value of a User (**LTV**)
- Cost Per Acquisition (**CPA**) / Cost Per Install (**CPI**)

# A Formula

**Direct Revenue per month** (price to download, ad revenue, in-app purchases)

+ **Indirect Revenue per month** (social referrals)

x **Average Number of Months Per User**

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= **LTV**

- Must also factor in usage/revenue erosion, maintenance costs and discount rate (time value of money).
- LTV is difficult to calculate early in the lifespan of your app. Need time and an install base.

**The Key:** **CPI** must be lower than **LTV**.

**Example:** If your CPI is \$2 and your LTV trends towards \$3, you'll arbitrage this all day long.

