

# Commercializing an App

by Stephen FitzGerald

I open my Careem app and select location for Downtown Dubai, UAE. Hassan, my Careem driver, is at my door two minutes later. On the chaotic Sheikh Zayed Road, Hassan's careful driving is a welcome contrast to some of the questionable driving around us. As I reach my destination, I read the news that Uber, the California based global transport giant, has just purchased Careem for USD3.1Bn. This is the biggest tech deal the region has ever seen. The deal is proof that, structured correctly, mobile apps can mean big business.

A mobile app is no longer a differentiator for businesses, it is a channel for businesses to engage existing and new prospects with the intention of capitalizing on the data acquired to drive revenue, efficiencies and behaviour. However, an app can still be a significant source of revenue. According to Statista the total revenue derived from apps in 2016 was USD 88 bn, they are expecting this to grow to USD 188 bn by 2020. The scope for revenue through apps has never been bigger.

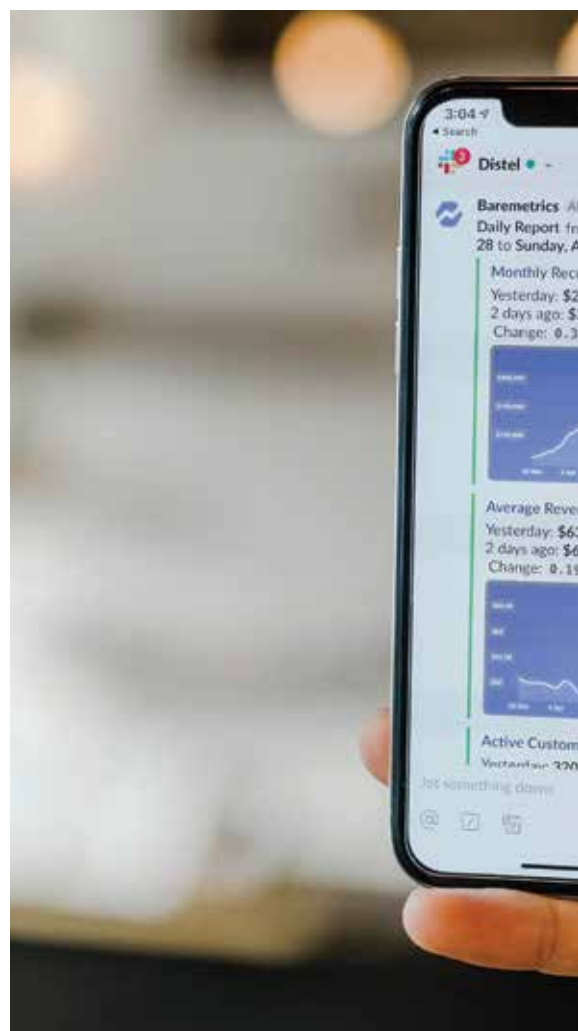
According to Forbes, apps with in-app purchases generate the highest revenue for their publishers. This monetization strategy is also expected to dominate in the years to come. Both UK agencies and advertisers are now spending the majority of their advertising budgets on mobile. The early adopters of app creation saw the best route to monetizing apps was through charging a fee for downloading their app. While this is still the case for some of the app market, recent trends suggest that free apps, rather than paid apps, is where future monetization lies. Recent data shows us that now over 95% (and growing) of the share of apps on the Google

Play Store come from free apps.

I should point out that some businesses do not need a mobile app, don't just create an app because you feel you must. It sounds simple but before creating your app you should be clear on what the objectives are. Have you identified a problem which can be resolved by your app? Do you want to expand sales channels? Do you want to gather more data on your customers? Perhaps you already have an app that has a significant active user but you don't generate any revenue from it.

The number one source of revenue for app developers comes from in-app ad-revenue. The 'effective Cost Per Mile' (eCPM) model measures the cost of every thousandth ad impression. eCPM is calculated by dividing the total earnings by the total number of impressions (multiplying that result with one thousand). This output allows marketers to evaluate and optimize their monetization strategy, the higher the number the better the performance. eCPM doesn't require the user to click on the advertisement for the developers to earn.

Alternatively, Cost Per Click (CPC) advertising is a model used in user acquisition campaigns, where in-app advertisers pay each time a user clicks on their in-app ad. This model relies on a mobile user taking an action. However, if the ad doesn't deliver high clicks, CPC won't be profitable for an app owner. Finally, a Cost Per Action (or Install) model allows the app owner to get paid only when the user takes a specific action, for example clicks on the ad and for example makes a subsequent purchase or installation.



## So, what types of advertisement formats are available to app owners?

The most common form of in-app advertising are called Interstitial advertisements. Such ads occupy the entire screen. This technique allows the advertisers to capture the audience's attention like no other. However, users can become frustrated with this technique which makes them less receptive with users hitting the 'x' button as quickly as possible.

Banner ads are the original form of mobile ads. They are commonly embedded into an app. Often the objective is to take the user from the host page to the advertisers app. Banners on iOS on average cost \$0.20 to \$2.00 and slightly cheaper on android \$0.15 to \$1.50. In-app video ads are arguably the best way



to monetize your app. In 2019, US advertisers will spend \$129.34 billion, or 54.2% of their media ad budgets, on digital ads. By 2023, that figure will reach 66.8%. If you've built an app and you've gathered enough users to monetize, video ads are probably the best option. Recent Facebook earnings calls have emphasized videos and live broadcasts as one of their key future growth plans. Average cost for video ads are \$3.00.

Mobile native advertising is a format of advertising that takes advantage of the form and function of the surrounding user experiences, all of which are indigenous to the wide variety of mobile devices. In contrast to Interstitial ads users don't perceive native ads as regular digital ads and hence aren't annoyed by them as much.

## Building an app as an extension of your existing business

In this scenario you are expanding potential revenues by creating an additional channel for your business. Examples of this include Tesco and Aer Lingus which are established businesses who have added a channel to provide their goods and services. These companies generate incremental revenue on selling existing products and services but to customers on their smartphones. How they increase revenue is more indirect, their apps allow them to acquire new customers and to more easily gather data on their customers. The key to having success in extending your business through an app is functionality.

If I think about the apps I use the most, they generally don't ever fall below what I am expecting of them. Examples that spring to mind are Google Maps and WhatsApp. They serve their purpose and are reliable. If you are extending your business through an app you need to ensure that your app is functional, easy to use and reliable.

## Using an app to gather data

Above we have outlined how transactions are made through advertising, but in order to optimize advertising, gathering data on consumers is the foundation on which these marketing strategies sit. Facebook, through its Facebook Dynamic Ads product enables advertisers to upload their entire product catalog and target customers at specific income levels. Similarly, its Lead Ads offering helps advertisers in lead generation. Setting aside the dubious means by which Facebook has sold this data to multinational companies, gathering information on customers through your app lets you know your customer better than ever.

Recently, one of our clients engaged us to build a rewards app for one of their key brands. In a nutshell, they wanted to provide an app to their customers who could purchase

their products in brick and mortar stores and then scan their receipt into the app which allowed them to earn points and to redeem them on future purchases or at participating partners. While the app was a big success with their customers, the biggest benefit for our client was the ability to get to know their customers better. The problem that large FMCG companies currently have is that they don't know their customers and rely on distributors and retailers for insights. Targeted campaigns based on customer behavior and data gathered through the app has been hugely successful, leading to tangible benefits manifesting themselves on the P&L compared to periods before the app had been launched. Furthermore, significant value can be generated by offering a service or a utility that can trigger mass adoption with active users – as this region has seen with Careem.

In summary, more and more transactions will be done through mobile apps but before you decide to create one for your business, take the time to figure out whether it makes sense or not. If you structure your app correctly you can get incredibly valuable insights into your customers which will allow marketing to penetrate further sales and increase your customer base.



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