

From the Magazine: Monetizing Mobile Games

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Competing for a job that comes with a shot at a trip to outer space sounds like more of a game than an interview. Maybe it even sounds a little crazy.

It makes sense to Rob Emerich, CEO of PaeDae. His startup is focused completely on games and so it stood to reason that when the time came for PaeDae to find a new software engineer, it might as well have some fun with it.

“This is what our company does. We give rewards to consumers, sometimes fantastical, sometimes more everyday,” said Emerich. “Why not do it with our next hire?”

PaeDae is a white-label company offering mobile game developers an SDK for integrating consumer rewards into their existing games. It’s an inventive way of tackling the difficulties with monetizing mobile games. Consumers get prizes, consumer partners get positive exposure and mobile developers get money for adding the lightweight software to their games. Just like PaeDae offers players incentives to keep plugging away at games, developers need incentives (i.e. income) to keep making those games.

Emerich explains the meaning to consumers like this: “When we win something or we earn something, we’re much more likely to find value in that thing.”

Those rewards come from PaeDae’s brand partners and range from free soft drinks to chances to win larger prizes, to the ability to make a charitable donation. Emerich said it’s been well-received by consumers.

That kind of positive experience for consumers invariably provides a benefit to developers as well. But Emerich said there’s more for than just that for developers. In addition to the PaeDae software, his company offers a service called “Bartr” that allows developers to trade ads. For every ad promoting a different app a developer runs on their app, they get to run a similar ad on someone else’s app. It’s a free and targeted system that helps developers bring consumers to their games.

“Attracting new users was heretofore something each developer had to pay for and was probably their largest expense,” Emerich said. “We’re trying to develop a relationship of trust with developers, to provide them with a service that we know they need that is also generally very expensive and that we have the infrastructure to support.”

App Market Booming

Take a look at how business is booming for mobile apps and it's easy to estimate that there are a lot of developers out there looking for help in grabbing a slice of the pie.

According to Canalsys' App Interrogator research, app downloads across the four leading digital storefronts totaled more than 13.4 billion in the first quarter of 2013, marking an 11 percent increase quarterly. Without revenue sharing taken into account, that total was enough to post \$2.2 billion in revenue for all stores combined.

The benefits are there for mobile game categories. Direct combined revenue from paid apps, in-app purchases and subscriptions grew by 9 percent quarterly.

But those kinds of boosts in sales don't come without a little controversy.

Earlier this year, Apple was essentially forced to start labeling when an application in its App Store offers in-app purchases. This small but significant change came on the heels of Apple finding itself in hot water as toddlers ran up staggering bills in mobile games. One British boy rang up more than \$2,600 of digital goodies playing the game Zombies Vs Ninja. Another British youngster managed to rack up more than \$1,500 in digital donuts on a Simpsons game. In both instances, Apple refunded the money.

That's relatively small potatoes compared with the near \$100 million it cost Apple to settle a U.S. lawsuit over similarly high bills stemming from kids spending real money inside of free games. It's a trend that has led consumers to question just how "free" mobile games really are and it has possibly attracted a certain level of shadiness to developers of these popular apps.

Striking a Balance

That's why a resoundingly positive monetization scheme like PaeDae seems so vital for mobile games. Such a solution strikes a balance between actually making money off of developing and bogging down free games with so many ads that annoyed consumers just skip it all together.

"How much money can I make while limiting how much I piss off my players?" is how Emrich phrases the question developers have to answer. He adds that his platform is one of the first opportunities for developers to "monetize and engage their player and that's a very new option for them."

But he's quick to differentiate what PaeDae offers from in-app purchases, while still

insisting there's a time and place for in-app purchases and that they can be convenient for the right user.

"It's really not a part of our system at all," Emrich said. "There's nothing to buy in our system. The user can choose to interact with a brand but the developer gets paid regardless."

But given the continued dominant popularity of free apps, developers will have to have more creative ways to get paid since purchase and subscription fees don't account for much of the action. According to Gartner, total downloads across all storefronts are expected to pass 81 million in 2013 but only about 10 percent of those will be paid-for apps. The rest will be free and Gartner doesn't see that number going down, predicting free apps will account for 91, 92 and 93 percent respectively in each year following.

But Gartner sees the number of downloads featuring in-app purchases jumping from 5 percent of total downloads in 2011 to 30 percent in 2016 with in-app purchases accounting for 41 percent of total store revenue by 2016.

In-app purchases are on track to become quite a dominant revenue producer but if they are deployed in conjunction with other, less hot-button monetization techniques, consumer annoyance or exploitation can be kept to a minimum.

Developers Need Options

Scott Swartz, CEO of MetraTech, a company that specializes in monetizing business relationships, sees something in the form of a hybrid approach to monetizing apps, including mobile games.

"With MetraTech, our special sauce is allowing the customer to configure the model they want," Swartz said. "You can have subscription models, you can have usage models, you can have advertising models and you can have all types of hybrid models."

David MacQueen, director of wireless media strategies at Strategy Analytics, sees all of those models as viable options. He recognizes in-app purchases as a strong monetization plan for mobile game developers but acknowledges that the practice is still in its infancy and the positives and negatives are still being sorted out.

"[In-app purchases] can lead to a meritocracy," MacQueen said, talking about games garnering financial success based on quality instead of marketing. "If everything was monetized through in-app purchases you would have a true meritocracy where only the games that were good and resonated with consumers

would be the ones that would actually generate revenue.”

MacQueen sees the negatives of in-app purchasing coming from different directions, both from scams and from legitimate companies trying out different things and making unfortunate mistakes. Problems like kids accidentally spending \$300 of their parents’ money on Tetris will continue until the industry learns to regulate itself or government regulators get involved.

An example of self-regulation MacQueen cites would be the industry doing away with hybrid monetization models that combine up-front charges and in-app purchases.

“If I’ve paid the full price for something I expect full access,” he said. “If it’s free there’s a bit more leeway where consumers will understand, ‘Well, this has been free for me to play up till now. I will pay a little bit extra for level packs, add-ons, etc...’”

But MacQueen sees monetization alternatives for game developers wishing to avoid the possible pitfalls associated with in-app purchases. Recognizing that there’s the kind of mobile game developer community that powers something like PaeDae’s ad-for-ad exchange program, he sees advertising as a viable model for making money off mobile games. But he identified a curious problem that practice could present.

“If you create a game that’s ad-funded, your major advertisers are going to be your competitors,” MacQueen said. “What tends to happen is you see adverts for other games, people who are effectively trying to steal your audience.”

Beyond those options he sees subscription models as a money-making tool, but that practice is most often associated with the massive multi-player experiences common to PC and console gaming but not as much to mobile gaming.

Subscriptions for mobile apps, not just games, is something MacQueen has seen take root in Asian markets but it’s a practice he’s yet to see catch hold in western markets like the U.K. and the U.S.

As the market for mobile games continues to grow, more and more developers are going to have to find the monetization model or combination of monetization models that best suits their games and the players it attracted. It appears that all models, not just in-app purchases, come with a wide variety of pluses and minuses. In-app purchases just happen to be carrying the hottest lightning rod at the moment.

But with the right amount of patience and participation from players and a good

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balance of the business and pleasure principals that guide developers, mobile games will continue to be a beneficial experience for everyone involved.

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