

App Developers See Revenues from In-App Purchases Outpace Advertising Revenues

ARTICLE | SEPTEMBER 29, 2020

Yoram Wurmser

The pandemic has caused reduced advertiser spending overall, leading to lower growth of in-app ad spending despite significantly higher numbers of ad placements. While in-app purchases (IAPs) never stopped growing amid the pandemic, publisher revenues have recently been shifting from in-app advertising to purchases.

Sensor Tower estimated that global app revenues from purchases rose by 23.4% year-over-year in H1 2020. Of the \$50.1 billion generated by in-app purchases, \$36.6 billion came from within games, a 21.2% YoY increase.

In recent years, hybrid monetization models—a combination of in-app purchases and advertising—have become more common in mobile games (and elsewhere). That trend appears to have stopped for the moment, at least among games. AppsFlyer, a mobile analytics and attribution platform, reported that the share of games using a hybrid model dropped 8% between Q2 2019 and Q2 2020, with all game categories showing a dip except for “hardcore” games (battle or fantasy games geared toward intense gamers). For casual and midcore games that retained their hybrid model, the share of revenues coming

from advertising fell 30% YoY within the same games. In absolute terms, ad revenues did well in these hybrid games, rising by 47%, but IAP revenues jumped by 130%.

The trend toward increased revenues from purchases began in Q3 2019 but accelerated in H1 2020, when there was an 11% drop in advertising revenues and a 15% increase in IAP revenues among the same group of hybrid apps, according to AppsFlyer. “Users were far more engaged with games during lockdown, and along with the effects of our ‘new normal,’ users have become less tolerant of ads,” said Shani Rosenfelder, head of content and mobile insights at AppsFlyer.

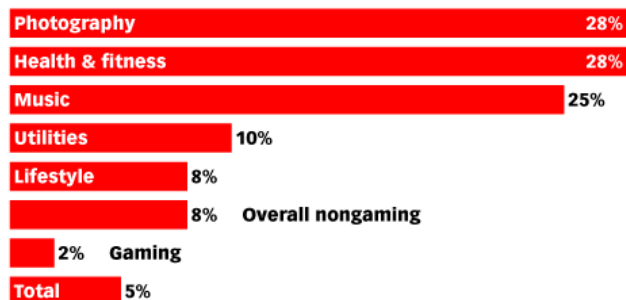
Subscription Models on the Rise

The rapid growth of IAPs in games runs parallel to the fast rise in subscription revenues outside of gaming apps. According to App Annie, among the top 250 nongaming apps as measured by revenues, in-app subscriptions contributed to 97% of consumer spending in iOS apps and 91% of spending in Google Play apps in 2019. And 94% of the top 250 iOS apps by revenues and 79% of the top Google Play apps monetized using a subscription model.

According to AppsFlyer’s Rosenfelder, the share of apps using subscriptions has grown by 40% in 2020 thus far. Now, 5% of all apps worldwide use subscriptions—but only 2% of gaming apps do so. At least a quarter of photography, music, and health and fitness apps use a subscription model, per AppsFlyer.

Share of Subscription Mobile App Installs Worldwide, by App Category, Q2 2020

% of total app installs tracked by AppsFlyer



Note: represents activity tracked by AppsFlyer, broader industry metrics may vary; read chart as saying 28% of photography app installs are for subscription apps

Source: AppsFlyer, Aug 5, 2020

257930

www.eMarketer.com

Sensor Tower found that among the top 100 nongaming apps in the US, those using subscriptions generated \$4.6 billion in revenues in 2019, an increase of \$800 million from 2018. The App Store generated more than three-quarters (\$3.6 billion) of this amount, while Google Play generated \$1.1 billion.

Consumers seem to have become more comfortable with buying subscriptions in general during the pandemic. A survey by Deloitte found that the number of US teens and adults who had a digital video subscription rose from 73% in January 2020 to 80% in May. The biggest jump was among baby boomers (54% to 69%).

Most US adults expect to keep their subscriptions across several categories once things return to normal, according to an April 2020 survey from The Harris Poll. "Social acceptance of subscriptions has clearly increased," said Paul Müller, co-founder and chief technical officer at mobile measurement company Adjust. "For many people, it's just a much more normal concept. And, of course, you could also say there are suddenly many more offerings to buy subscriptions for."

At some point, however, consumers will hit the limit on how many subscriptions they're willing to pay for. "I would say in the past 12 to 18 months, the mobile-first developers—those that really understand mobile—have all been trying to drive a subscription business," said Ted Krantz, CEO of App Annie. "Just like everything with mobile, there

comes a point when the diseconomies of scale kick in. How many subscriptions will a particular consumer actually run and manage?”

Bottom Line: Pay Attention to Customer Experience

The resurgence of IAP revenues, including subscriptions, has an impact on in-app advertising as well. As hybrid apps become more sophisticated, ads have evolved to better fit the app experience. Developers are also getting better at knowing when to show ads and when to push IAPs or subscriptions.

Ad formats that are built into the app experience—whether they are immersive ads styled as billboards in a racing game, a playable ad to preview a new game, or a rewarded video ad offering 30 minutes of video streaming—can work without detracting from in-app purchases or hindering full subscription sign-ups.

To learn more about how changing app economics are affecting advertiser options, eMarketer PRO subscribers can read our recent report:

Report by Yoram Wurmser Sep 15, 2020

App Monetization Trends 2020



Not sure if your company subscribes? [You can find out here.](#)