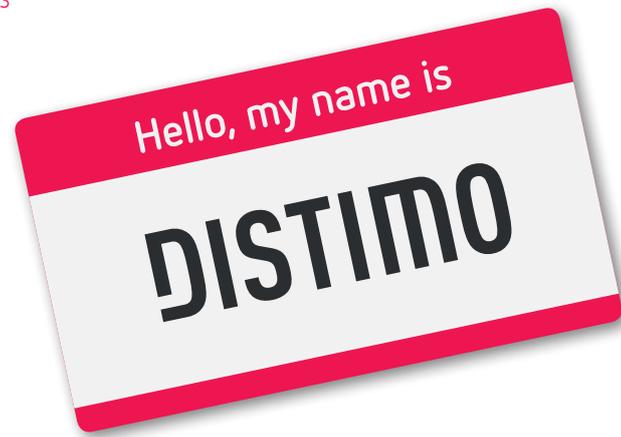# March 2013

HOW THE MOST SUCCESSFUL APPS

MONETIZE THEIR USER BASE

By Hendrik Koekkoek, Analyst at Distimo

DISTIMO **Publication** - March 2013

Hello, my name is

DISTIMO

A brief introduction

Distimo was created because the founders were frustrated by the lack of insights into the performance of their apps, and the manual work needed to track the most important metrics.

Today, Distimo provides the #1 free app store analytics tool, tracking over 2.6 billion downloads / quarter for major developers worldwide. Distimo AppIQ is the most accurate source of app data that helps developers and financial services companies to make well informed strategic decisions in the global app market.

We offer three core services:

- **App Analytics**
  track your apps across all major app stores and ad networks.

- **AppIQ**
  get access to the most accurate and daily download and revenue estimations for any app.

- **Conversion Tracking**
  measure your full app sales funnel from discovery to app launch.

Founded in 2009, Distimo is a privately held company based in The Netherlands.
Follow us on Twitter, read our blog or learn more at www.distimo.com.

New and noteworthy

This month's report examines and analyzes the business models and revenues per download in the Apple App Store for the period from January 2012 through March 20, 2013, and looks at the development of the revenue generated by in-app purchases over time, along with the differences in monetization. It also analyzes the average revenue per download (ARPD) for top apps, and shows how this differs per country and devices. Analyzing the ARPD can be important for investors to make analyses of user engagement and market potential.

All numbers mentioned in this report are based on an analysis of the all-time revenues and downloads of the top 250 highest grossing applications in February 2013 that have been released since January 2012, unless otherwise noted. The analysis covers revenues generated through the App Store, and therefore ad revenue is excluded. The estimated downloads and revenues of these applications are available in Distimo AppIQ, on which the analysis is based.

The major findings are:

In-app purchases generated a record 76% of all revenue in the Apple App Store for iPhone in the U.S. in February 2013. At least 90% of all revenue was generated by in-app purchases in the Asian markets, which include Hong Kong, Japan, China and South Korea.

The average revenue per download (ARPD) of the top 250 apps released since January 2012 is $0.99 in the U.S. This number is significantly higher in Japan, where the average user spends more on apps, and the ARPD of the top 250 apps released since January 2012 is $3.12.

Among the top ten apps for February 2013, which were released since January 2012 in the U.S. for iPhone, the ARPD ranges from $0.37 to $7.04.

Of the three various business models, freemium apps generate the least amount of revenue per download with an average of $0.93 when looking at the top 250 apps in the Apple App Store in the U.S. Ninety-two freemium apps generated less than $0.99, which is the lowest price point for paid apps.

Paid apps without in-app purchases generate $2.25 in the Apple App Store for iPhone in the U.S. Paid apps with in-app purchases generate even more per download, indicating that users are not put off by the fact that they also have to pay for additional features within the app, in addition to the one-off fee they initially paid for their app.

The average revenue per download for paid apps is higher on iPad than on iPhone in the Apple App Store in the U.S.: $4.04 versus $2.25, respectively.

The average iPad download generates more revenue with in-app purchases than on iPhone. Freemium apps have an ARPD of $2.26 on iPad versus $0.93 on iPhone.

Alongside this publication we host a free webinar on the subject of

average revenue per download on Wednesday 3rd of April @ 5:00 PM (CEST).

Please register here to join the webinar.

Introduction

The share of revenue generated with in-app purchases in the app stores is exploding. Developers have known this fact for a while now, and many of them have switched their business model to the freemium model. A noticeable recent example of this is Real Racing 3. The first iterations of this series were paid applications, but the latest version, released in February 2013, was free-to-play (F2P). According to its publisher, EA, the move to F2P has been successful. They have published an infographic which shows that the number of downloads has already surpassed the downloads of Real Racing 1 and 2 combined. However, revenues, or revenues per download were not mentioned.

In this month's report, we will first look at the development of the revenue generated by in-app purchases over time, followed by the differences in monetization. Moreover, we will analyze the average revenue per download (ARPD) for top apps, and show how this differs per country and devices as well. Analyzing the ARPD can be important for investors to make analyses of user engagement and market potential.

Popularity of in-app purchases seems unstoppable

In-app purchases (IAP) now generate the majority of the revenue in the app stores. This has been the case for some time now, and it continues to rise as displayed in the graph below. In-app purchases generated only 53% of revenue in the Apple App Store for iPhone in January 2012 in the U.S., but generated a record 76% in February 2013 clearly demonstrating the success of this monetization method. Even though the model is successful in all countries, it doesn't mean that success is guaranteed in all of them. An example of this is one of the top revenue generating countries for the Apple App Store for iPhone – Germany – where only 61% of revenue was generated from in-app purchases in February 2013. The share of revenue generated by IAP in Asian markets is even larger than in the U.S.: at least 90% of all revenue is generated by IAP in Hong Kong, Japan, China, and South Korea.

Total IAP Revenue Share
iPhone, United States
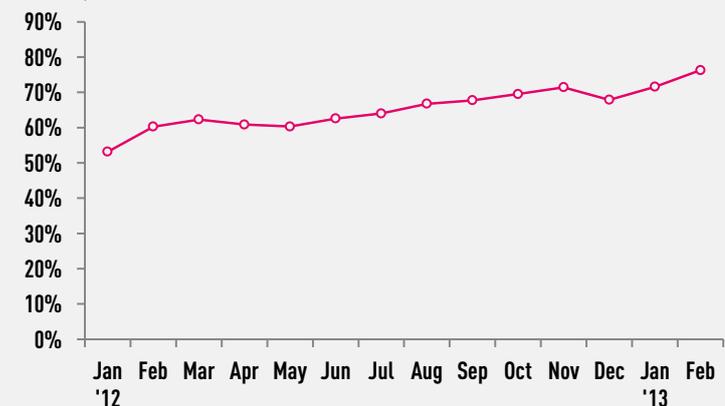
In-app purchases generated a record

76% of all revenue in the Apple

App Store for iPhone in the US in

February

Looking more closely at how the revenues are made up, we can break down the revenue generated by IAP even further. The graph below shows that 71% of revenue was generated via IAP from free apps with IAP (freemium), and 5% was generated by IAP from paid apps in the U.S. in February in the Apple App Store for iPhone. This shows that not just IAP is successful, but particularly the freemium model.

The success of freemium is best seen in the top overall most grossing apps. The table below contains the top most grossing iPhone applications in the U.S. in February, which were released since January 2012. All of these apps use the freemium model. It is interesting to see how different business models compare to each other when looking at the average revenue per download (ARPD). To examine this, we have taken the top 250 grossing applications from February 2013 for the U.S. iPhone App Store as our sample, that have been released since January 2012. We used our product, Distimo AppIQ, to estimate all downloads and revenues for all apps since January 2012. Dividing the total revenues these apps have generated since launch by all downloads gives an estimate of the ARPD. For the top 10 apps below, the revenues per download are shown in the table, and shows there are large differences per app. The ARPD ranges from $0.37 for What's the Word? to $7.04 for Rage of Bahamut.

Revenue Breakdown Per Source
iPhone, February, United States

24%

Paid Revenue

5%   IAP Revenue From
      Paid Apps

71%

IAP Revenue From
Free Apps
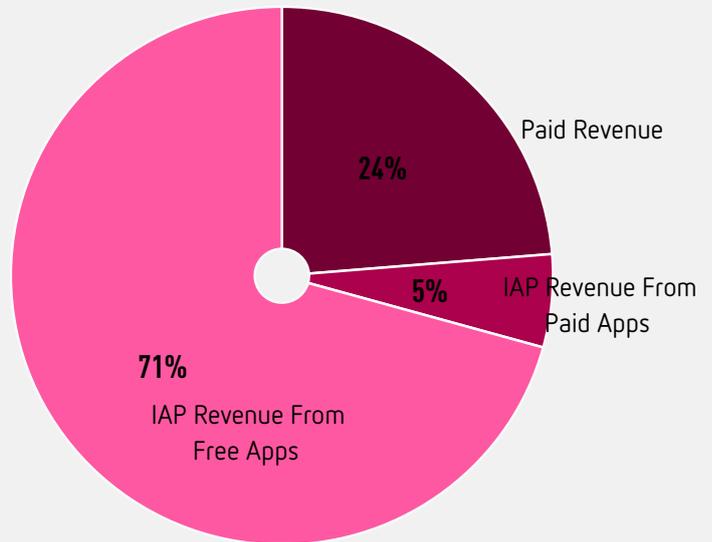
Top Grossing Applications February 2013

iPhone, United States, apps released since January 2012

Grossing Rank	Application	All-time ARPD	Release date
1	Clash of Clans	$4.66	2012-06
2	Candy Crush Saga ®	$1.14	2012-10
3	Hay Day	$3.29	2012-05
4	MARVEL War of Heroes	$2.93	2012-09
5	The Simpsons™: Tapped Out	$2.14	2012-02
6	Big Fish Casino – Free Slots, Poker, Blackjack and More!	$6.80	2012-08
7	Rage of Bahamut	$7.04	2012-05
8	The Hobbit: Kingdoms of Middle-earth	$4.64	2012-10
9	What's the Word? - new quiz with pics and word	$0.37	2012-11
10	TurboTax SnapTax	$2.18	2012-01

iPhone ony, iPad revenues and downloads for universal apps not included in this analyis.

Average Revenue Per Download

Of the top 250, there are 170 apps that are free with IAP and 53 applications that are paid with IAP. The remaining 27 applications are paid only. We want to compare which of these generates the most revenue per download. We excluded apps that switched business models to compare the various business models because when they did, it is no longer possible to distinguish between business models anymore. The ARPD is calculated by dividing the sum of all revenue generated by apps together by the sum of downloads of all apps in a group that share the same business model. Please note that our analysis includes only revenues generated by one-off fees and in-app purchases. Ad revenues are not included in the analysis.

Regardless of the business model used, the ARPD is $0.99 for all apps together. Calculating the ARPD is rather straightforward for paid apps without IAP. This is simply the price (unless an app changed its price during the period). The ARPD for all paid apps in the analysis was $2.25. For free apps, the ARPD is much lower at $0.93. Of the freemium apps, 92 apps made less than $0.99 per download, which is the lowest price point for paid apps. So, even though freemium apps are the way to go for many developers, paid apps still have a higher ARPD. On the other hand, one should keep in mind that the cost to acquire a download is usually higher for paid apps than it is for free apps.

Regardless of the business model used, the ARPD for iPhone is $0.99 for all apps together[1].

Total Revenue Divided By Total Downloads
iPhone, United States

Based on all-time downloads and revenues of top 250 grossing applications in February 2013, which were released since January 2012.

We have separated paid apps and paid apps with IAP in our calculation of the ARPD as well. Paid apps with IAP have an ARPD of $2.46. Given that these two business models are quite similar, the comparison of the ARPD between these two models is interesting. It shows that paid apps with IAP generate more revenue per download. In other words, users are not put off by the fact that in addition to the one-off fee they already paid for their app, they also have to pay for additional features in the app.

1. All apps in the top 250 most grossing in February 2012 which were released since January 2012.

The average price of iPad apps is generally higher than the average price of iPhone apps. The average price in the whole store for iPad is $4.46 vs. $3.19 for iPhone in the U.S. in February 2013. Therefore, it is expected that the ARPD for paid apps will be higher for iPad than for the iPhone. When making the same analysis as above for iPad[2], this expectation is met. The ARPD for paid apps without in-app purchases is $4.04, almost two times higher than on iPhone. The ARPD for paid apps with IAP is $3.72. In contrast to the findings for iPhone, paid apps with IAP generate less revenue per download than paid apps without IAP.

Total Revenue Divided By Total Downloads
iPad, United States
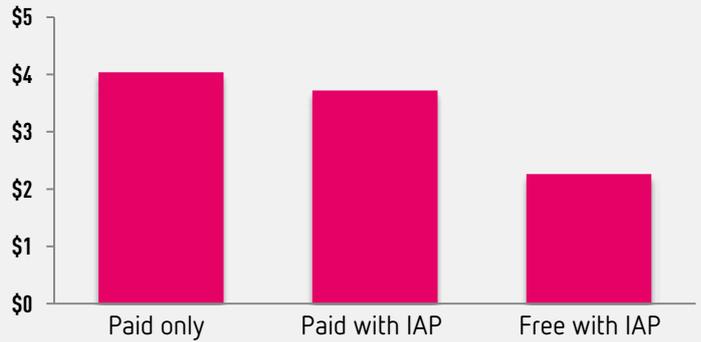
Based on all-time downloads and revenues of top 250 grossing applications in February 2013, which were released since January 2012.

Freemium apps have an ARPD of $2.26. This is significantly higher than on iPhone: iPad users not only pay more for their apps, but also for in-app purchases. We can conclude the same for in-app purchases from paid apps: the average in-app revenue per download from paid apps is $0.98 on iPhone and $1.26 on iPad.

ARPD compared between countries

It is also interesting to compare the ARPD between countries. Similar to the analyses above, we analyzed the total revenues divided by the total downloads of the top 250 apps in February released since January 2012 in several countries in the Apple App Store for iPhone.

Total Revenue Divided By Total Downloads
iPhone
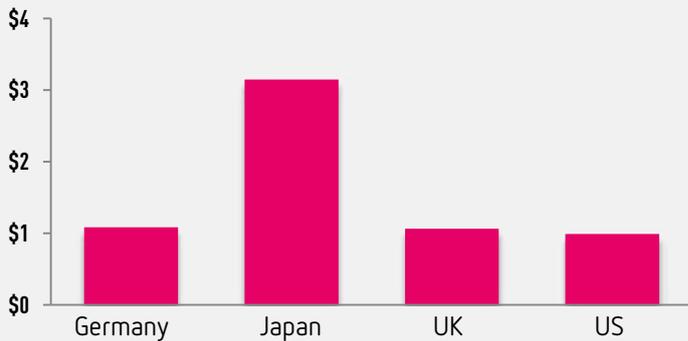
Based on all-time downloads and revenues of top 250 grossing applications in February 2013, which were released since January 2012.

The graph shows that while the ARPD in Germany, UK and U.S. are quite similar, it is much higher in Japan. The main reason for this is that the most successful of the top 250 apps have a high ARPD in Japan compared to other countries. The average ARPD of the top 10 grossing applications for iPhone (released since January 2012) in Japan is over $12, which is much higher than these other countries. It is $3.52 in the U.S. as can be seen from the table above with the top apps. As these 10 apps generate a large part of the revenue of the top 250 in Japan, these apps have a large effect on the ARPD for the complete top 250. The high ARPD in Japan shows the large potential of this market. The average download is worth more in Japan than in these other three countries.

Please note that Puzzles & Dragons, the #1 grossing game in Japan, was excluded from this analysis in order to prevent a bias towards this game only. Had this app been included, the ARPD would be even higher in Japan.

2. Analyzing the top 250 most grossing apps for iPad in the U.S. in February 2013 that were released since January 2012.

Recap

The analyses in this month's report show that there are large differences in the average revenue per download, and there are large differences per business model. Freemium apps generate less revenue per download than paid apps, while paid apps with in-app purchases generate even more revenue than paid apps without in-app purchases in the U.S. on iPhone. On the iPad, the average download not only generates more revenue for paid apps than they do on iPhone, but for in-app purchases as well. Lastly, there are large differences per country as well, with Japan generating much more revenue per download than the U.S., UK and Germany. It is important to keep these differences in mind for marketing decisions. All numbers in this report are based on Distimo AppIQ data, which allows users to view estimated revenues and downloads for every app in the Apple App Store and Google Play.

Track daily downloads and revenues of any app with Distimo AppIQ
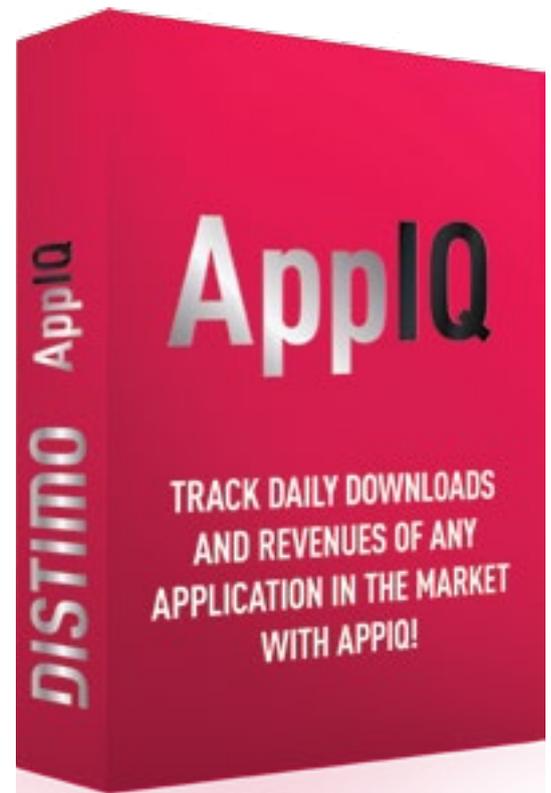
Distimo AppIQ allows users to:

- Track and compare app downloads and competitor app downloads: Analyze an app's market share and compare download figures versus a competitor's in one chart. The chart shows the daily downloads and can also be aggregated per week or month. Events such as price changes, featured listings and version updates are also included, and allow the user to analyze the influence of each event on downloads.

- Analyze competing app revenues including those from in-app purchases: View daily revenues from competing apps side-by-side with the their own app and get extensive insight into the revenue generation of different business models, revenue per country, and platform.

- Identify the most popular and upcoming new apps: The Leaderboard provides the daily rankings of all applications, and can be viewed by app store, country, category, device, and free/paid/gross. All of the major app stores are supported, and for iOS and Android, the daily volumes per individual app are also provided. AppIQ users see the daily downloads and revenue from in-app purchases and one-off fees. Developers can also use the Leaderboard to see how many downloads are needed to achieve a certain ranking on any given day.

Learn more about AppIQ at www.distimo.com/appiq

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