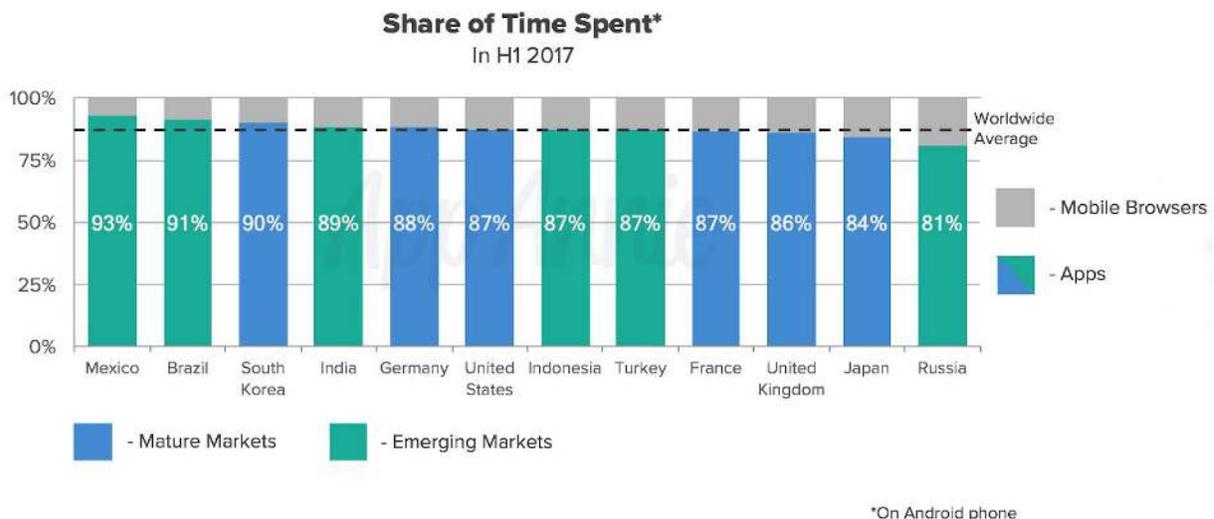# Everything There Is To Know About Pricing Strategies For Your Mobile App

To say the app industry is booming would be an understatement.

Millions of apps already live in the Apple App Store and Google Play store, and thousands more are launched every month.

A study conducted last year by App Annie found that when people are on their phones, they're spending the majority of their time on apps. And that's true around the world:

Share of Time Spent*
In H1 2017

- Mobile Browsers
- Apps

Mexico 93% | Brazil 91% | South Korea 90% | India 89% | Germany 88% | United States 87% | Indonesia 87% | Turkey 87% | France 87% | United Kingdom 86% | Japan 84% | Russia 81%

Worldwide Average

- Mature Markets
- Emerging Markets

*On Android phone

As app developers, we eat up these stats like Corn Flakes!

We have a passion for apps and love seeing the joy our apps bring to people.

To be honest, we could sit here and research mobile stats and data all day—and have fun doing it—but numbers serve no purpose in our business if we don't understand the why and the how behind them. And today, we want to look at the why behind mobile app pricing.

Free apps, subscription apps… what's the deal? What are customers drawn to? How do you decide how to price an app? Those are the questions we want to answer!

A separate study we came across by App Annie projects that in 2020, global app store revenue will grow to $101.1 billion.

Mobile App Forecast – Annual Gross Revenue
Worldwide, in Billions
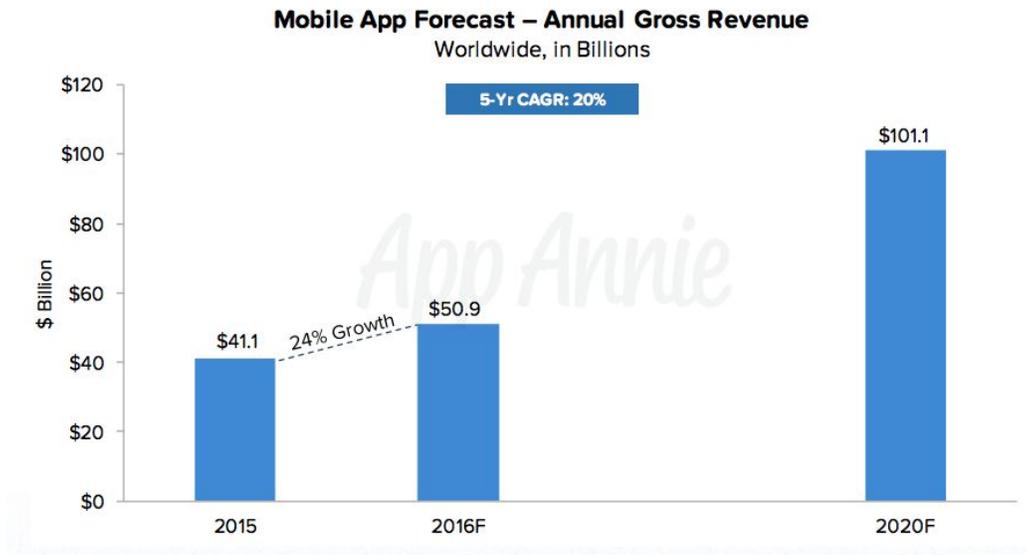
That's a huge market.

Apps are becoming more and more valuable to consumers, which is also making the market harder and harder to penetrate. That's why taking the time to understand consumer psychology and pricing strategy needs to be part of your business plan.

In this piece, we'll look at the various pricing strategies for mobile apps and what you need to know to make the right decision for your own app.

Let's dive in.

Types Of Mobile Pricing Strategies

Free

Who doesn't love free? I can hear my mother now: "You don't get much for free these days." And it's true—you don't! That's why it's always a pleasant surprise when something is labelled "free."
But do consumers expect apps to be free?

Offering a free app is definitely one of the most effective models, especially if your plan is to attract a lot of users. But how do you make money?

Well, maybe that's not the goal of your app—not directly, at least. There are two types of free pricing strategies. Which one you choose depends on the purpose of your app:

Completely free: These apps usually act as add-ons to an established product or service. The goal is not to make money directly from the app, but instead to drive people to other revenue streams. For example, your app may offer coupons to purchase a product on your website, driving people there for further nurturing.

Companies also create free apps to facilitate customer service and to aid customer retention efforts. Banking apps, for example, make it easier and more convenient for clients to manage their finances on the go. On these apps, customers can often receive or activate additional offers, such as a free overdraft or credit limit increase. Those services ultimately make money for the bank (and keep customers happy), even if the app itself has no price tag.

In-app advertisements: These apps are platforms for ad revenue. Advertisers rent space within your app, and people see those ads when they use your app—but the app's still free to download.

If you've ever used a gaming app, you've probably used an app with in-app advertisements. [The Weather Network app](#) is another app known for displaying ads throughout the interface.

What To Keep In Mind

With a free app, you can usually gain users quickly. A good free app can quickly drive consumer awareness and engagement, and maintain it. But if you don't gain you desired user base—and you're relying on in-app ad revenue—it will be difficult to keep your app running and profitable.

Users downloading a free app typically expect to deal with ads, but they still want the ads to be relevant to them and to the app. Making sure the ads in your app are interesting and non-disruptive is a good way to keep users happy. [Google AdMob](#) is one such service offered to both Android and iOS developers that allows you to filter your app's ads by user relevance and ad format (i.e. banner, full page, etc). Customization and monitoring are key to not irritating your users and driving them to bail on the app.

Freemium

With the freemium pricing model, the app is free to download, but there are additional tiers, features or incentives within the app that users can choose to pay for.

There are three main types of freemium apps:

1. Users download the app for free but must pay to move up in levels, access premium features, get boosters (for e.g. extra lives), or use in-app currency. These are all common in gaming apps.
2. The app comes with all features and functionalities for free, but for a limited time. After that, the user must pay to continue using the app as they have been.
3. The app is free and contains ads, but the user has the option to pay a one-time fee to have the ads removed.

A good example of a freemium app is [HoursTracker](#), which functions as a mobile timesheet. The basic app [is free in the App Store](#), but users can pay to upgrade to the Personal Edition or Pro Edition.

What To Keep In Mind

A freemium app can go over well … or not so well, depending on how it's positioned. Some people expect a free app to have full functionality and are disappointed when their access is limited.

This exact problem [caused an uproar](#) back in 2015. As a result, Apple dedicated an entire section in its app store to games with no hidden in-app purchases. They called it "Pay Once & Play."

If done well, a freemium app could act as an infinite source of income for your company; but, just like with free apps, freemiums work best when your goal is to attract a lot of users. Unlike free apps, however, your users will want more out of your app if they're expected to upgrade.

For developers, this pricing model can prove to be a lot of work, as you're forced to continually add upgrades and improvements while managing user purchases.

Offering a decent number of free features and not deluging your consumers with upgrade notifications (though you do want to demonstrate the value of the paid features) are two good ways to keep your freemium app in good standing.

Paid
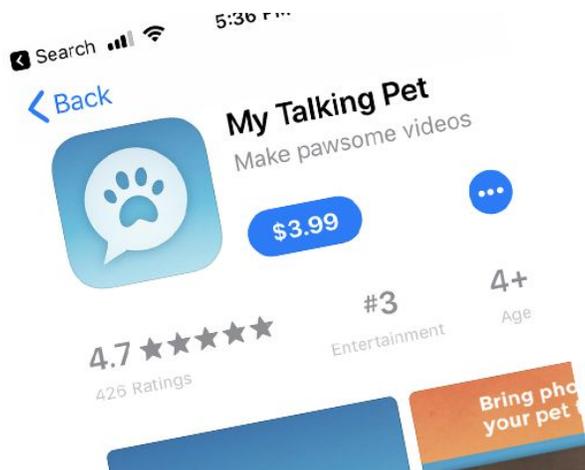
This pricing model is the simplest: People pay once to download the app, then it's free to use.

App prices usually range from $0.99 to $9.99. Once users pay, they own the app and all its features.

One example of a successful paid app is [Draw Something,](#) the super-popular drawing game app. It cost $3.99 at the time of writing this post, but was still #19 in the Word category of the Apple App Store and had a 4.5/5 star rating.

What To Keep In Mind

Paid is a fairly common app pricing strategy, but it's also one of the least effective. Think about it: Your user typically can't get a feel for the app before being asked to shell out money.

When people have virtually no basis upon which to make a purchasing decision, aside from the description in the app store, it's all the more important that your marketing efforts are exceptionally strong. A potential consumer will want to know exactly what they're getting by downloading and using your app, and what makes it better than a free equivalent.

One approach many brands take to position their app with potential long-term users is to offer a 7-day or 14-day free trial, at the end of which users must pay to continue using the app. Allowing people to try out the app with no pressure or commitment to purchase is a great way to encourage users to dip their toes in the water and see what you're all about.

Users will also have much higher expectations for your app than for a free app. If you manage to attract a user, they'll likely be a loyal one. They're more likely to rate and review your app—but that could be a bad thing if they don't like what they're experiencing.

Paymium

If you understand freemium and you understand paid, then should understand this model—it's simply the two blended together.

The user pays for the app, but there are additional features that can be accessed for an additional cost.

If people love free so much, why in the world would they opt to pay *multiple times* for an app?

Glad you asked! If your app rocks, it rocks—and you might as well leverage its appeal.

Ellen Degeneres' popular party game Heads Up is one paymium app that successfully draws people in. Whether or not you watch Ellen, you know who Ellen is, and you either own the app, have played the app, or have heard of the app. It costs a minimum of $0.99, but you only get so many card categories to play with. There are dozens more card categories you can purchase within the app… and since the game is fun, you usually end up purchasing a few. As of May 2, it's [#1 on the iOS top paid apps list.](#)

This pricing model works best when the value of the app comes from its content. You have to showcase the benefits not only of getting the app to begin with, but also paying for additional tiers and features.

Games that people are familiar with, such as Mindcraft, The Game of Life and NBA 2K18, do great with a paymium strategy. Their leverage comes from great marketing and strong reputations.

This is one of the least common strategies, but does have the potential to provide great revenue streams for your business. It's recommended you are clear with users upfront to avoid causing frustration.

Like freemium apps, paymium apps require continual involvement from the development team to stay relevant, up-to-date and engaging in order to entice users to come back and make additional purchases. High-quality design, content and functionality are of utmost importance.

Subscription

One last pricing strategy to consider is a subscription-based model. Users pay a monthly or annual fee (sometimes auto-renewing) to continue using your app.

Some app categories using this strategy are newspaper apps, dating apps and music streaming apps like Apple Music.

This model is not yet widespread, but it's been gaining momentum over the past couple of years. Apple, for one, is fully on board with subscriptions, even offering an incentive to companies who pursue that pricing model.

Normally, Apple receives a 30 percent cut from App Store purchases, but for subscriptions, they're offering to take just half of that—a 15 percent cut—once subscribers pass the one-year mark. That means the goal for subscription app makers is figure out how to keep users on board longer than a year—which, let's be honest, should be *every* app developer's goal.

Clearly, there's an opportunity to make way more money using this strategy than any other. You're always making money, even if you aren't consistently gaining more users. A subscription is also somewhat of a softer approach than asking for direct payment, as it makes the user feel like they're paying only as long as they continue to find value in the app.

Those who choose to subscribe to your app show commitment to your product. This model presents a chance to build long-lasting and loyal customers—as long as you continue to provide reasons to stick around: relevant updates and new features added periodically.

Which Pricing Strategy To Choose

So now comes the hard part.

Clearly there is some serious revenue to be gained in the app market, but what is the best approach to monetizing your app? Which pricing strategy do you choose?

Think about apps as you would any other product. They all follow the same laws of supply and demand. The right price is whatever price people are willing to pay. You have to play for the market.

The way apps differ from other products is that the sheer market saturation causes a [very short shelf life](). People may download an app, but getting them to reopen the app day after day and week after week is the main challenge. You really need to work to keep your users engaged and coming back for more.

The wrong price could break that deal before the download even happens. Potential customers could be turned off by what they perceive to be a shocking cost, or they might delete an app they've downloaded after receiving too many pop-ups or simply not getting their money's worth.

At the end of the day, you have to consider many different factors before making your choice, including:

- The purpose of your app
- Your business goals
- Who your users are
- Market demand
- The cost of building and maintaining your app
- What your competitors are doing
- Whether your app will be iOS or Android

You'll need to answer these questions before going any further with your pricing decision.

That's not to scare you; it's to drive home the importance of thinking this through before hitting the marketplace.

Generally Speaking...

The value of your app should ALWAYS outweigh the price.

If you choose to assign a cost to your app, know that user expectations will be higher. Is your interface up to par? Are you on top of bug fixes? Users want any app they purchase to provide exceptional quality, even if it's only $3.99.

If you have a free app, think about how many users you expect to gain. Can it run on advertisements alone? Does your product or service allow for additional features you can affix a cost to?

Or, if you have many apps, maybe you'll consider an app bundle.

What Others Are Doing

App Annie surveyed 1,200 app developers late last year to see how companies currently price their apps. The results show that in-app purchases and in-app advertising lead the pack:


Monetization Methods: Past or Current
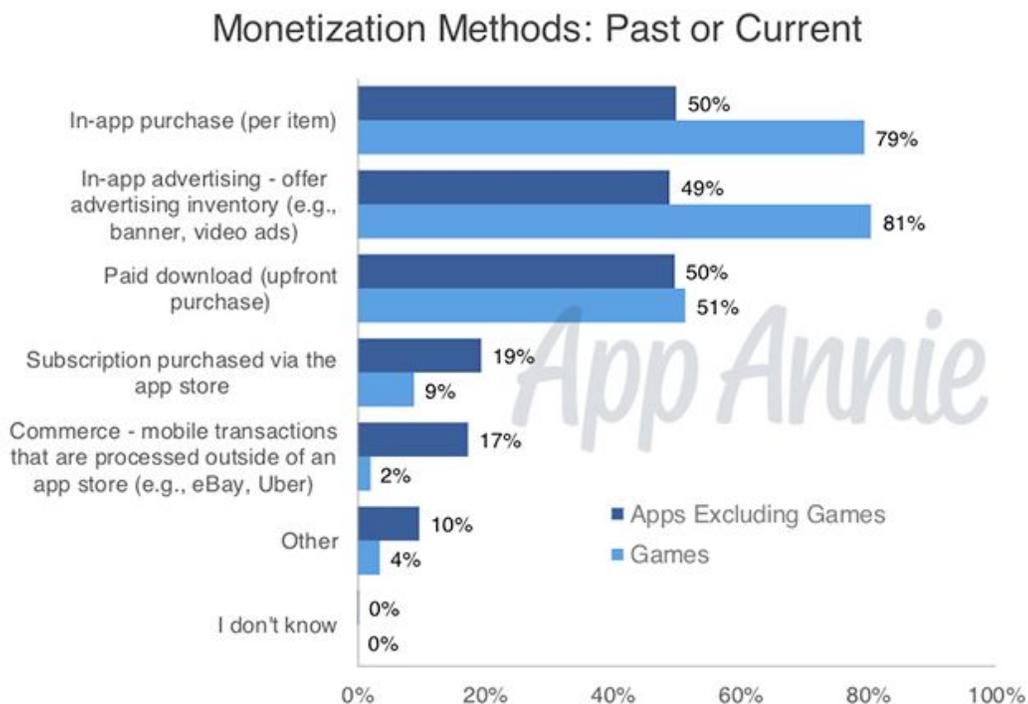
At the same time, those developers revealed that if they were to change their strategy, they'd be interested in a subscription-based model.

You may have to test multiple pricing strategies before you land on the right one. Remember though: Offering a free app with paid add-ons, or starting at a higher price and then reducing it, will go over way better than trying to increase the price at a later date.

How Consumers Are Responding

A consumer [survey conducted by Gartner](#) in 2016 showed that average in-app spending was up 26 percent over the previous year to a mean spend of $11.59, while upfront spend ticked up only 4 percent to a mean spend of $7.67.

Figure 1. Amount Spent on Smartphone Apps in the Last Three Months (in U.S. Dollars)

© 2017 Gartner, Inc.
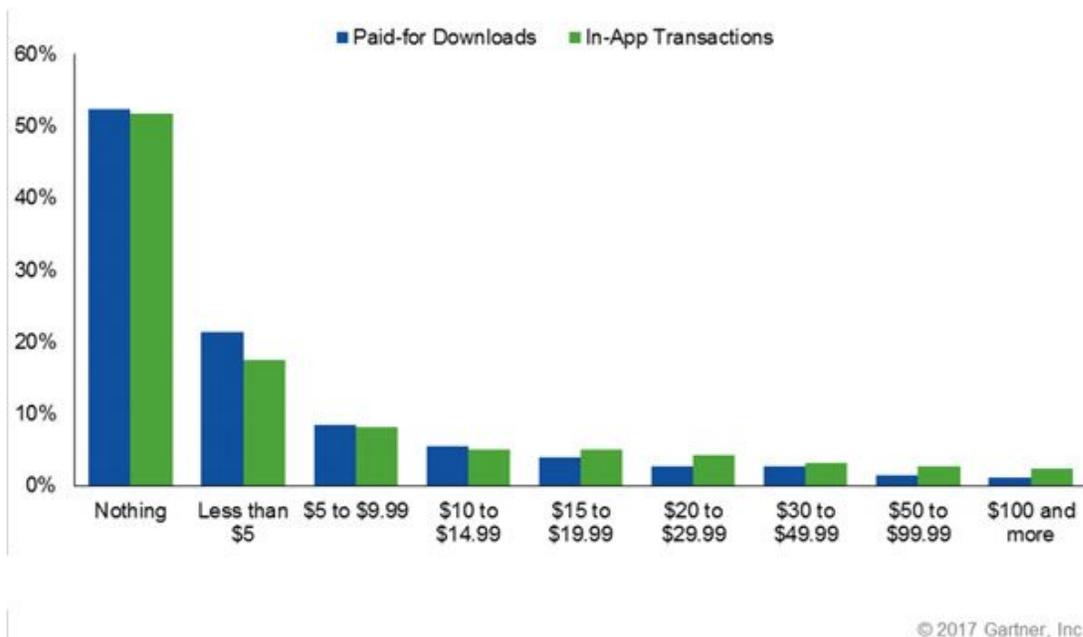
This demonstrates that users are willing to spend in-app. That's good news for app producers because there is so much more room to make money on upgrades and add-ons.

More food for thought: The survey also found that millennials ages 25–34 tend to spend the most out of all other age groups on both types of transactions, and that women spend less money on apps overall.

CONCLUSION

The app market is growing quickly and it shows no signs of slowing down soon.

It's more challenging than ever for apps to break in, stand out and remain relevant.

Keeping up with trends and user expectations is the number one priority for ensuring your app gets in front of the eyes of thousands.

The pricing strategy you choose should reflect the value of the app, meet market expectations and achieve your business goals.