

COLUMNS

## The problem with mobile games and ads

August 22, 2016



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By **Mark Robinson**

With mobile games set to generate more revenue than their PC and console counterparts for the first time this year, you would be forgiven for thinking that the mobile games industry was in rude health.

In reality, the big revenues are generated by just a small handful of juggernaut publishers such as King, Supercell and Wargaming. Because of the harsh economics of free-to-play (F2P), most developers struggle to effectively monetize their games.

When you look at the numbers you can see why.

Firstly, you need to invest hundreds of thousands of dollars upwards to develop your game, which you will then give away for free. You will then need another small fortune to throw at user acquisition (UA), so that you have got enough players coming into the game. Why? Because only 1 percent of them may ever go on to spend money, if you are lucky, so volume is key.

With this as the backdrop, you would think that serving ads would be an absolute no-brainer for publishers and developers, giving them the ability to monetize the remaining 99 percent of their player base. Yet ad monetization typically only accounts of 38 percent of in-application purchases (IAP) income.

In-game advertising's crisis of confidence

There are a number of reasons for this.

Firstly, most developers have an uneasy relationship with ads since they can affect the player experience. So packing their games with ads is not something that comes naturally.

Then there is the lack of accurate performance data, making it almost impossible to understand which networks are delivering the best value and what the effect of each campaign is on retention.

With retention such a vital metric in F2P, combined with the fact that developers are essentially shooting blind, most developers opt for an ultra-cautious approach, tending to only serve ads later in the player lifecycle to avoid losing them before they have had a chance to spend. But if 99 percent of players are not going to spend anyway, why wait to monetize them?

In recent years, players have become much more accepting of ads and value exchange at work with F2P games. So much so that, according to Unity's latest research, players actually prefer ads as a monetization experience, especially rewarded video ads, where players receive an in-game award for watching. Yet the developers are still often taking a very light touch because of fear of tumbling retention figures, negative reviews and lost IAP revenue.

In fact, fans of the Angry Birds franchise have become so accepting of reward ads that when Rovio removed ads

from Angry Birds Transformers for any player who had spent money on the game, the move was met with outcry from fans who paid for progress, but had come to rely on those video ad rewards as an important supplement, rather than an annoyance.

Of course, any game with an overly aggressive ad strategy is likely to lose players fast. But there are plenty of examples of games in-app stores that take fairly aggressive ad strategies and still enjoy ratings of up to 4.5 stars. So why do so many developers hold back?

Developers strike back

With overly cautious advertising strategies commonplace in mobile games, you have to wonder why?

Surely, if developers were seeing substantial amounts of cash rolling in from advertising, they would realize that they can increase revenue and retain their players?

Until recently, ad networks held all the power, making it almost impossible for developers to reconcile monetization and retention, because ad data was always kept in silos away from the player data.

We are seeing initial eCPM rates that quickly diminish because of buyer programmatic and the difficulty that the developer has in manually maintaining effective ad network cascades in individual games. But this cycle is slowing, beginning to change and being driven by mid-sized games companies.

The big guys have always used the power and scale that they can offer to negotiate better deals with the networks or directly with advertisers.

However, while midsized game developers do not have that influence, they are increasingly turning to independent automatic mediation to put them in control. This powerful monetization weapon allows them to dynamically show ads from only the best performing ad networks and manage ad frequency based on understanding the effects on player data.

Because of this, developers can have more confidence about serving ads into their games, while ensuring that it is not just the juggernaut publishers that can benefit from higher eCPM rates.

RELYING ON in-app engagement to generate the lion's share of your game revenue is a granite-tough business.

But by integrating with an automated mediation platform, developers can expect greater equality, consistency higher eCPM rates and an increase in supply, as game companies begin to gain confidence and increase the frequency of ads in free to play.

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