**The advertising business model**

1. How digital advertising works

Advertising is one of the most prevalent business models in the latter half of the 20th century, and it works across a wide range of media. The basic idea is that if you have something that many people are looking at – a newspaper, a football player, a video game – you can sell some space on that something to other businesses that want people to see their message.

From this follows that the more people who look at your video game, the more money someone will pay to be able to write their message in it. However, there are other factors to consider too for the prospective ad buyer, namely who is playing your game? The typical player of Subway Surfers is probably quite different from the typical player of Dungeon Heroes, and vastly different businesses will want to communicate with the two player types.

 These two considerations apply to any form of advertising, but digital advertising has an advantage over traditional advertising in that it is actually possible to measure its effectiveness. While you cannot accurately measure how many people see an ad in the newspaper and buy something because of it, you can easily, effectively and accurately measure how many people react to a digital ad – you simply look at the amount of clickthroughs (CTs) it gets, that is to say how many people who see the ad click on it to go to the product it advertises.

 This has lead to the rise of two different pricing principles: cost per click (CPC) and cost per impression (CPM). In the first, the advertiser pays a set amount for each click the ad receives. In the latter, the advertiser pays a set amount for getting the ad shown a set amount of times. Obviously, the CPC is usually priced more heavily than the CPM, since it generates far more data for analysing customer behaviour.

 Since you will be selling ad space, you will need to figure out whether to bet on CPC or CPM as the primary mode of ads in your game. This decision is closely linked to another decision, which is whether to use ad networks or not.

2. Ad networks vs. specialized deals

Typically, the advertising business model involves cooperation with an ad network. This is a company that administers ad placement for a host of customers and simply displays ads in your game that correspond between the information they have on your audience and the information they have from the advertiser on which audience he or she wants to target. On the web, Google has this market locked down, especially in the Western world, but the market is a lot more differentiated on mobile app platforms.

 In the literature section at the end of this business model you will find links to a host of ad networks, but a few general words about how to choose between them is in order. First off, you need to select your geographical target – there are vast differences in how strong different advertising networks are in different parts of the world. Secondly, you should look at offers from several different ad networks. It can sometimes seem like they are giving you money, but they are not – you are selling space to them and you should sell it at as good a price as you can get. Thirdly, you need to consider the placement of ads in your game and whether your chosen network partner can accommodate your design needs. Although obviously your design needs could be in need of revision, if you cannot find a suitable ad network.

 In the final analysis, you probably need to try some different ad networks out or seek out people who have experience with similar games and using this model to support them. The experiences shared by Simon Møller, which is in the literature below, is a good place to start.

 Another possibility which some analysts see as a big opportunity in the future is specialised deals, where you deal directly with the purveyors of a product and custom make an ad in your already successful game for them. Say that you have a successful endless runner game and during the Olympic Games, the mascot runs along. This specialised deal delivers a more tailor-suited value to the advertising company.

 It goes without saying that specialised deals are more of an opportunity for already established properties, while the ad network solution is most likely the only one of the two available to a typical start-up. Bear in mind, though that the specialised deals version of this business model can be extraordinarily lucrative and may be a worthy goal to work towards.

3. Designing for ads

Just as you need a certain design philosophy to properly support a freemium model, you need to think carefully about how you design the way your players interact with the ads. At least two dimensions are vital: ad placement and flow design.

 Ad placement is all about integrating the look of your ads with the look of your user interface. You have to place the ads in a way that balances a certain inconspicuousness with the very real demand that user *do* see the ads. This can be tricky and is the primary reason why ads are less frequently placed inside the main gameflow.

 Concerning flow design, the object is to place ads at a place in the flow of playing the game, where it makes most sense. This can take two forms. Either you can design for ads to appear at natural pauses in the game flow such as between level changes, between replays, between turns. Alternatively, you can design for ads to break the flow deliberately, appearing as the player is in the middle of a typical interaction with the game. This can produce a higher clickthrough-rate but risks irritating players and turning them off the game.

 No matter what decisions you make about how to design your game for ads, you must ensure that it is compatible with your choice of ad network or the special deals you can negotiate.

4. Things to consider

There is considerable debate in the games business about the validity of the advertising business model. While it has reigned supreme since the beginning of the mobile games market, the freemium model is winning many proponents over. The argument being that various versions of the freemium model – especially ones containing multiple in-app-purchase opportunities for the players – can generate much more revenue than ads. Countering this argument is the consideration that ads usually have a steadier and more easily predictable revenue. In the literature below, there is a link to Nicholas Lovell’s collection of a host of different perspectives on this debate.

 Whatever side of the debate you come down on, you should note that it seems to be an either-or question in the sense that if you include ads in your game it significantly decreases the motivation of your players to make in-app-purchases. Unless of course removing the ads is an option as an in-app-purchase.

 Starting up with the advertising business model is potentially the easiest way to make a game profitable, but in conclusion here is a summation of the three points you need to be clear on to be successful with this model:

1. Decide on whether to use ad networks – and decide on the right network for your target audience; often the most important question here is where they are located geographically.
2. Design your game to effectively include ads; either through static interface design or dynamic flow design.
3. Run scenarios for this revenue model compared to an application of the freemium business model – and choose accordingly

Careful consideration of these three points will get you far on your way to constructing a business plan around the advertising business model.

Literature:

Atwood, Bryan: *4 ways to Maximize Your Mobile Game’s Ad Revenue Potential*, <http://www.gamasutra.com/blogs/BryanAtwood/20111220/9127/>

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Sen, Conor: *The Future of Ads: Mobile Wil Crush Display; Games Could Crush Them All,* <http://www.theatlantic.com/business/archive/2012/06/the-future-of-ads-mobile-will-crush-display-games-could-crush-them-all/258047/>

Lists of Mobile Ad Networks:

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<http://www.hongkiat.com/blog/mobile-app-monetizing-networks/>

<http://www.mobyaffiliates.com/blog/worlds-top-mobile-advertising-platforms/>

<http://gulyani.com/complete-list-of-mobile-ad-networks-companies/>

<http://mobithinking.com/mobile-ad-network-guide>