The No-Nonsense Guide to
In-App Ads

Learn how to make money from
your app with advertising and
how to get started.

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Introduction

A clear trend is emerging in the world of smartphones – people want free apps. According to a study by Juniper Research, just over 1% of apps are now paid for at the point of download.[1]

As free app downloads grow, developers want to know the best way to sustainably fund their businesses. In our last guide, we covered all of the different business models an app could use to make money. One model that fits with the free app trend is in-app advertising.

Making money from in-app ads has become a huge opportunity. Many of the world's most popular apps rely heavily on in-app advertising to earn income. Companies like PicsArt and Trivia Crack have hundreds of millions of downloads each and use advertising as a major revenue source. VisionMobile predicts that the in-app advertising market will be worth $62B by 2017.[2]

This guide is designed to provide a comprehensive overview of in-app advertising. We'll walk you through an overview of how businesses make money from ads, cover key industry terms, and suggest the best way for you to get started.

This guide covers:

- ✔ Foundational advertising concepts like eCPM, fill rate, demand, and inventory

- ✔ How pay-per-click advertising works

- ✔ A basic explanation of ad networks and how they can help you monetize your app

- ✔ How to choose the right ad network for your app

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1   *Juniper, April 2015 and Juniper website, The App Landscape Today, Feb 2015*
2   *Source: VisionMobile, App Economy Forecasts 2014–17, December 2014*

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Chapter 1:

## The Big Picture – How a Business Makes Money from Advertising

The digital advertising industry shares a lot of basic principles with advertising in the physical world. Let's use an analogy to cover some fundamental concepts.

Imagine you own a popular cookie shop on a busy street. Thousands of people see your storefront everyday. It's common for people to buy cookies and enjoy them on benches right in front of your store. Because your store window is seen by so many people, there might be opportunity for you to place ads in it to make extra income.

Your next step is to take out your trusty measuring tape, examine your window, and see exactly where ads could go. Your window is pretty large, you could use the big space to display one huge ad or divide it up to show several smaller ads. In the advertising business, the space you have available to sell to an advertiser is called "Inventory".

Inventory:
The advertising space you have available for sale

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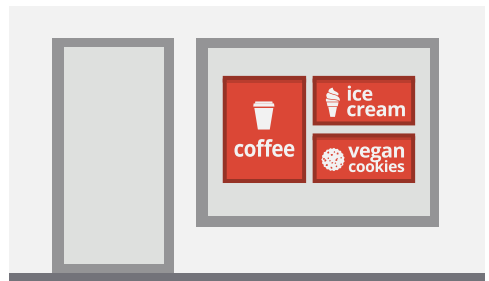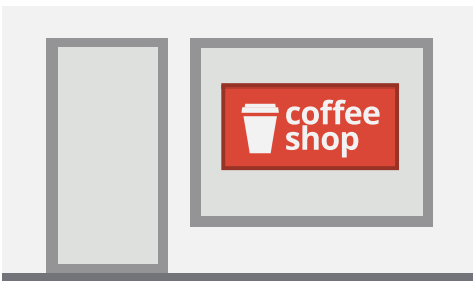
Now that you've determined what inventory you have available, it's time to sell your space to interested advertisers. You put together a flyer and start knocking on doors. Of the twenty businesses you approach, eight are interested in buying ad space. In the advertising industry, the businesses interested in advertising on your space is called "Demand".
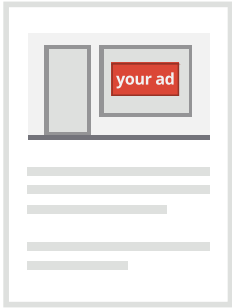
Demand:
The businesses interested in advertising on your space

As a mobile app developer, your app is similar to that busy storefront:

- ✔ You have people visiting your app every day
- ✔ Your app has available space where ads can be displayed
- ✔ There are other businesses who want to advertise to your users

But unlike the busy storefront analogy, your app is digital. Being digital brings you several big advantages. In the physical world, the store owner can't precisely measure how many people have looked at the ads. They can't measure how many people visit the advertiser's store because of the ad, and they're limited in the types of creative ad formats that can be used. In the next chapter we're going to look more closely at how the digital advertising industry works and what that means for your app.

Chapter 2:
How Pay-Per-Click Advertising Works

For mobile apps, the advertising industry doesn't only offer a model where advertisers pay to display an ad. They also have a pay-per-click model (or PPC model), where advertisers only pay when someone clicks on their ad. It looks like this:
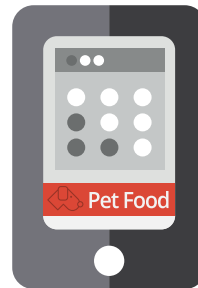
Pay-Per-Click (PPC): When a digital advertiser pays a publisher every time a user clicks on their ad

Pay for Display Model:	Pay-Per-Click Model:
In this example, you could imagine that just to put up a billboard ad along a busy road could cost the advertiser hundreds of thousands of dollars a year. Although the ad is for dog food and intends to target dog owners, it'll be shown to every person who drives by – dog owner or not. And regardless of how well the ad performs for the business, the advertiser must still pay the full price of the billboard.	In this example, you could imagine the ad displayed in a popular app costs the advertiser $2 per click. Just displaying the ad doesn't cost anything. The advertiser only pays when someone clicks on the ad. Because it's displayed digitally, the advertiser can be much more targeted, reaching a pre-qualified audience.

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PPC aligns interests of advertisers, app developers, and users. As digital advertising has matured, additional "pay for performance" advertising models have emerged like "pay per download" and "pay per acquisition", all designed to better align interests.

But what's the best way for you to start monetizing your app with ads? Offering PPC advertising on your app would require a lot of technical work to facilitate. Also, it would require a lot of resources to market your app to advertisers.

The best and simplest way to get started with advertising is to partner with an ad network. In the next chapter, we'll explore what an ad network is and how it can help your app business.

Chapter 3:
What's an Ad Network?

Ad networks do the hard work of bringing together the parties that participate in online advertising, making it simpler for everyone involved to succeed. They build relationships with businesses looking to advertise, and apps looking to make money by selling ads. Through an ad network, advertisers can get access to lots of different inventory in apps at scale. And, they also help app developers find advertisers quickly. You can spend less time marketing your advertising space and more time focused on creating the best app for your users.

Take a look at this simplified illustration showing how an ad network works:

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1   You have a popular app with open advertising space. Instead of going out and making direct deals with potential advertisers, you opt to use an ad network. Behind the scenes, the process is automated. You've already installed the ad network's SDK and their API makes a call to their servers.
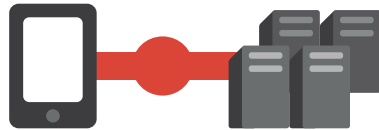

App: Hey ad network. Can you find advertisers for me? I have open inventory.

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2   Based on criteria you've set up before, the ad network finds demand that would work great with your app.

Ad Network: Sure! I'll make sure to find a great ad for you that fits your criteria.

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3 Several of the network's advertising partners are interested in your ad space. To determine which ad to show, the ad network typically holds an auction.
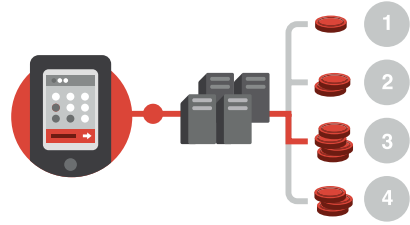
Ad Network: Hey advertisers! There's available ad space for you on this really popular app. Anyone interested? Let's do an auction.
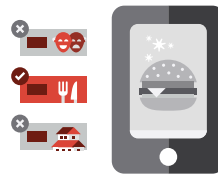
Advertiser 1: I'll pay $1.34 per click.

Advertiser 2: I'll pay $2.15 per click.

Advertiser 3: I'll pay $8.00 per click.

Advertiser 4: I'll pay $2.17 per click.

4 The ad network doesn't choose the winner solely on price. They instead consider which advertiser is most relevant to your user base, type of app, *and* price. They serve the winning ad to your app. The ad being shown is considered an "impression".

> **Impression:**
> Whenever an ad is fetched and shown in an app. An ad being shown is considered an impression regardless of whether the user clicks on it or not

Ad Network: This ad seems like the best fit for you. Here you go!

5 The user finds the ad useful and interesting and clicks on it. Success! The user finds a cool new product. The advertiser gets a potential new customer. And you share profit with the ad network.


User: This is interesting. I'd love to check this out. *Click*

And voila! Your app generated revenue from ads. All of this happens very quickly, usually in less than a second.

It's important to remember that not all ad networks are the same. Some networks focus on price and getting an ad in front of as many people as possible. Others care more about the quality of their advertisers. Some include extra features to help you with other parts of your business. Others keep their SDK as lightweight and easy to implement as possible. There are a lot of options, and a lot of factors to consider.

How do you choose the right ad network for your app? In the next chapter, we'll explore this question in depth.
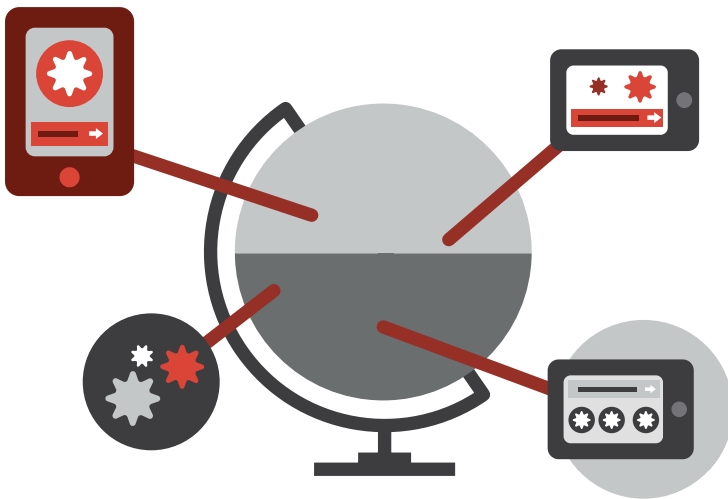
Chapter 4:

How to Choose the Right Ad Network for Your App

As we mentioned before, there are lots of different ad networks and factors to consider. Here are a few questions to kick off your evaluation process.

1. How much revenue can the ad network bring you?

To do this, you need to look at an ad network's "effective cost per mille" or eCPM for short (mille means 1,000 in Latin, referring to 1,000 impressions). In theory, the industry uses this metric as a standard measure to compare different networks' revenue potential. eCPM is calculated by dividing total earnings by total number of impressions in thousands and will give you a standard to compare different ad networks' payouts.

eCPM:
eCPM stands for "effective cost per mille" and is calculated by dividing total earnings by total number of impressions in thousands

$$\frac{\textbf{Total Earnings}}{\textbf{Impressions}} \textbf{ x 1000 = eCPM}$$

For example, if an app developer used an ad network that served 1,000,000 impressions and made $10,000, that network's eCPM is $10.

$$\frac{\textbf{\$10,000}}{\textbf{1,000,000}} \textbf{ x 1000 = \$10.00}$$

While eCPM is really important in evaluating an ad network, it shouldn't be the only factor you're looking at. It's possible for an ad network with a higher eCPM to earn you less money than one with a lower eCPM. The next consideration will explain another metric that will help put eCPM into context.

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2. How much demand does the ad network have available?

In addition to eCPM, it's important to evaluate an ad network's "fill rate". Fill rate is the number of times an ad network delivers an ad to an app divided by the number of times that app requested an ad.

Fill Rate:
The number of times an ad network delivers an ad to an app divided by the number of times that app requested an ad

$$\text{Fill Rate} = \frac{\text{\# of ads delivered}}{\text{\# of ad requests}}$$

For example, if an app requests an ad from a network 10 times, but the ad network was only able to find and deliver 8 ads, that network's fill rate is 80%.

It's important to look at both eCPM and fill rate in context of each other. If an ad network has a really high eCPM but a low fill rate, they may make you less money overall.

	Network A:	Network B:
Impressions	200,000	200,000
eCPM:	$5.00	$2.50
Fill Rate:	25%	90%
Total revenue:	$250,000	$450,000

**Network B made much more money with a lower eCPM but higher fill rate.**

3. What experience will the ad network provide your users?

To ensure your ad network gives your users a quality experience, ask these two questions.

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# What type of ad formats does the network provide?

Ads that are unengaging and an aesthetic mismatch from your app can ruin your app's user experience. Below is a list of common ad types. Be sure to check if the ad network you're considering has the formats that fit best with your design and user flow.
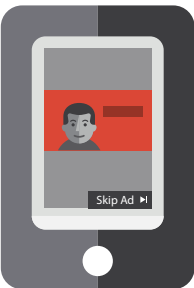
Types of Mobile Ads:
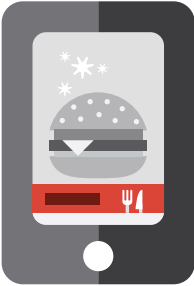
Banner Ads:
Banner ads appear at the top or bottom of users' screens and usually expand to full screen when tapped.
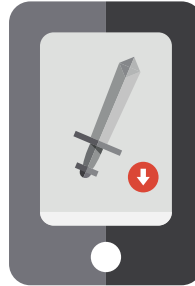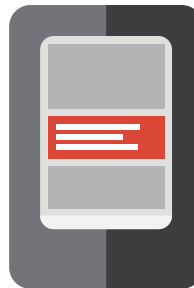

Interstitial Ads:
Interstitial ads, also known as full-screen ads, appear in your app at natural breaks or transitional points.

Video Ads:
Video ads feature engaging videos, allowing the users to expand the video when tapped. With Google's TrueView ads, users can skip the video after 5 seconds.

Native Ads:
Native ads give you the flexibility to alter the ads to match your app's form and function. With this ad type, you'll receive a JSON file with the appropriate content for your own customization.

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What's the quality of the advertisers on the ad network?

Your users will have a poor experience on your app if the ads they see are irrelevant to them or aren't compatible with their values. Ask the ad network you're considering what filtering options they provide, how sophisticated their audience targeting is, how easy is it to cap the number of ads shown to a user at any given time, and what languages they support. Also ask how much demand is available to you that best fits with your app's audience.

How good is the ad network's technology?

Ensure that the ad network you're considering has technology that you can rely on. When evaluating this, start by looking at its SDK. Is it lightweight and well-tested? Is it easy to implement with good documentation in case issues surface? What customer service options does the network provide?

You'll also want to look at the ad network's interface and analytics dashboard. Is it easy to use and set up? Does it provide useful insights to help you grow your business?

How quickly and easily does the ad network pay you?

Every ad network has a different system and timeline for paying its inventory partners. When evaluating a network, be sure to look through what their process is and if that process works well for you.

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How AdMob Can Help You Earn More:

If you're ready to get started with in-app advertising, AdMob by Google is a comprehensive ad platform that will help you earn more, improve your user experience, and scale quickly.

AdMob is used by more app developers than any other ad platform worldwide. We have 650,000 apps using our network to monetize each month, requesting over 300 billion ads, and paid out over $1BN to developers. Check out how our platform can help build your app business:

Earn more:	Improve user experience:	Scaling quickly:
✔ Instantly gain access to millions of advertisers by tapping into our huge demand pool.	✔ Show users engaging ads like video ads, interstitials, and native advertising.	✔ Deploy ads across all major mobile platforms and use plugins for specialized app development tools like Cocos2d and Unity.
✔ Mediate and optimize over 40 additional ad networks plus any of the direct deals you've made with advertisers for free. This will make sure you're making the most money from ads possible.	✔ Have full control over filtering your ads and capping the number of ads that can be shown to your users.	✔ Cross promote your own apps for free with our House Ads feature.
✔ We're leading the industry in fill rates and have competitive eCPMs.		

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Conclusion and Next Steps

We hope that you enjoyed reading this guide on ad monetization. Now it's time to get to work. To get started, check out the AdMob Quick Guide with all you need to know about setting up your account.

Also, be sure to fill us in with your progress on Twitter and G+. For more information on user engagement and general app development, check out our YouTube channel and blog. Best of luck!

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Glossary of Advertising Terms

Inventory: the advertising space you have available for sale.

Demand: the businesses interested in advertising on your space.

Pay-Per-Click (PPC): when a digital advertiser pays an app developer every time a user clicks on their ad.

Impression: whenever an ad is fetched and shown in an app. An ad being shown is considered an impression regardless of whether the user clicks on it or not.

eCPM: stands for "effective cost per mille" and is calculated by dividing total earnings by total number of impressions in thousands

Fill Rate: the number of times an ad network delivers an ad to an app divided by the number of times that app requested an ad.

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