Monetizing mobile apps: Striking the right balance

Neha Ajmera, Livia Sato, and Brian Stafford

More companies are discovering that an application programming interface can turn their data into new revenue streams.

Mobile apps are becoming big business. Analysts estimate that app-related revenues reached $25 billion last year, on the way to more than $70 billion by 2017. App developers and the Apple and Google app stores aren't the only ones profiting from this boom. A small but growing portion of app revenues comes from organizations making their data available through application programming interfaces[1] (APIs)—gateways that, among other things, enable third-party app developers to leverage a company's aggregated data or selected services.

There are reasons not to pursue APIs, of course, starting with the desire of many companies to have more direct control over their data. But our analysis indicates that APIs are generating revenues in one of three ways for the companies that choose to contribute their data (exhibit). Under the pay-per-use model, a company makes its transactional data available to third-party apps that, for example, compare prices or analyze customer behavior. Subscription models are similar, but fees accrue during a subscription period

rather than per use. Resource-usage and revenue-sharing models typically generate sales of a company's own products (for example, on an online store-front), from which the app developer too gets a cut.

As revenue opportunities and the potential for deep engagement with more customers grow, the role of APIs in broader business-planning discussions is expanding. In those conversations, it is essential for organizations to ensure that their desire to make money from their data does not interfere with their responsibilities as stewards of the customer's private data. ○

[1] APIs allow developers to access information from multiple companies and present it to mobile users in an app. In developing a travel app, for example, programmers would use the APIs from the websites of individual airlines to aggregate fares and flight schedules. Developers earn referral revenue when their mobile apps display products. (APIs can also create value by opening a company's internal capabilities to the world.)

Neha Ajmera is a consultant in McKinsey's Silicon Valley office, **Livia Sato** is a consultant in the San Francisco office, and **Brian Stafford** is a principal in the New York office.

Exhibit

APIs are generating revenues in one of three ways for companies that choose to contribute their data.

Prevalence of open API[1] revenue models, June 2013, n = 9,357 APIs, %

Resource usage and revenue sharing **19**

43 Pay per use

38

Subscription
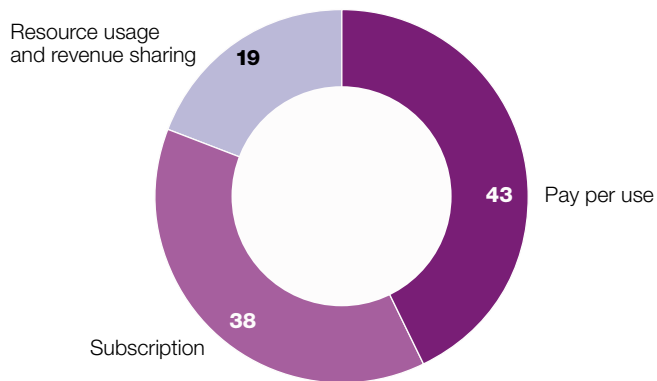
[1] Application programming interfaces: accessible gateways that enable third-party app developers to leverage a company's aggregated data or selected services.

Source: MuleSoft's ProgrammableWeb (http://api.programmableweb.com); McKinsey analysis