



Monetization and business model

Introduction

Monetization means converting non-revenue generating assets into sources of revenue. In economic terms, monetization means conversion of any event, object or transaction into a form of currency or something with transferable value. (InvestingAnswers 2017.) Monetization is close term to revenue model which describes how a business will earn income, produce profits and generate a higher than average return on investment. In business, a revenue model is generally used for mid and long-term projections of a company's profit potential and operation. Revenue model is the key component of business model. (WebFinance 2017b.)



Business model is a broader term describing how a company is structured and what kind of methods the company uses for maximizing revenues and profits. Business model is independent of competitors and the current state of the market. This is where where strategy comes in. The business strategy describes how the company will engage competitors, identify and segment customers, and respond to the actual market environment. Thus, two companies employing the exact same business model may can have different business strategies leading to very different financial results. (Noren 2013.)

Monetization

Several monetization strategies exist and some of those can be used at the same time. Some of the most known of monetization strategies are:

- Paid products and services
- Custom order
- Advertisements
- Freemium
- In-app purchases
- Paywalls
- Sponsorship

Paid product or service means that it is not free to download the product or access the service. If potential customer wants to use this kind of product or service, s/he must first make a purchase. After that customer gets either a license and/or a permission to use the product.

Paid service can be accessed on subscription basis via Internet. This kind of model is called Software as a Service (SaaS). It is a software licensing and delivery model in which software is licensed on a subscription basis and is centrally hosted, typically accessed using a web browser or thin client (Wikipedia 2017).



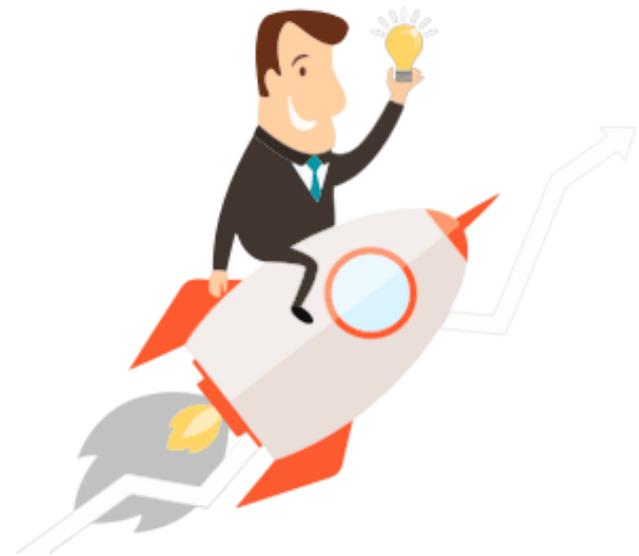
Popularity of cloud services has helped the emergence of new terms like, for example, "Games as a Service" and "Cloud gaming". Games as a Service offers a different way of thinking in the games industry, relating more to how games are developed, deployed and operated than it does to how they are played. (GameSparks 2017; GameSparks 2017b).

Applications can be developed as a custom order basis as well. This means that development is carried out according to needs of a customer that should get exactly what is ordered. This kind of applications are tailored applications.

Advertisements is a popular monetization strategy and an example of passive income. Instead of actively selling the product or service, advertisements are shown. The challenge of this model is that the product or service has to be addictive and a bit of luck is needed as well. (Mozilla Developer Network 2017.)

Freemium is another popular monetization strategy. The product is offered for free but certain features are gated and cost money to be unlocked. In other words, people have access to basic functionality of the product but there is a charge for premium or proprietary features that are called gated features. (Munir 2014.)

In-app purchases model means that physical or virtual goods are sold within the application. The product or service can be offered free and customer has an option to make purchases. This strategy is very close to freemium including gated features. (Mozilla Developer Network 2017.)



Paywalls (subscriptions) is another strategy similar to the freemium model. Paywall model focus on gating the content, not features. Paywalls allow user to view a predetermined amount of content for free and then prompts them to sign up for a paid subscription to get more. (Munir 2014.)

Sponsorship is based on incentivised advertising. It entails partnering with advertisers, who provide users of the product or service with rewards for completing certain in-app actions. In this model, brands and agencies pay to be part of an incentive system. (Munir 2014.)



Business model and business strategy

Business model is a term that can be defined in many different ways starting from short and simple definitions, ending to broader descriptions like, for example, Business Model Canvas. One of the most known short definitions for business model was expressed by Michael Lewis in 1999: "All it really meant was how you planned to make money." (Ovans 2015). In practice, this means monetization.

Business model definition of Business Dictionary is a bit more broader: "Description of means and methods a firm employs to earn the revenue projected in its plans. It views the business as a system and answers the question, "How are we going to make money to survive and grow?" (WebFinance 2017b).

The Business Model Canvas is more pervasive way to describe and understand the business model. The Business Model Canvas is a template (figure 1) for developing new or documenting existing business models, represented as a visual chart with elements describing a company's or product's value proposition, infrastructure, customers, and finances (Wikipedia 2017a).

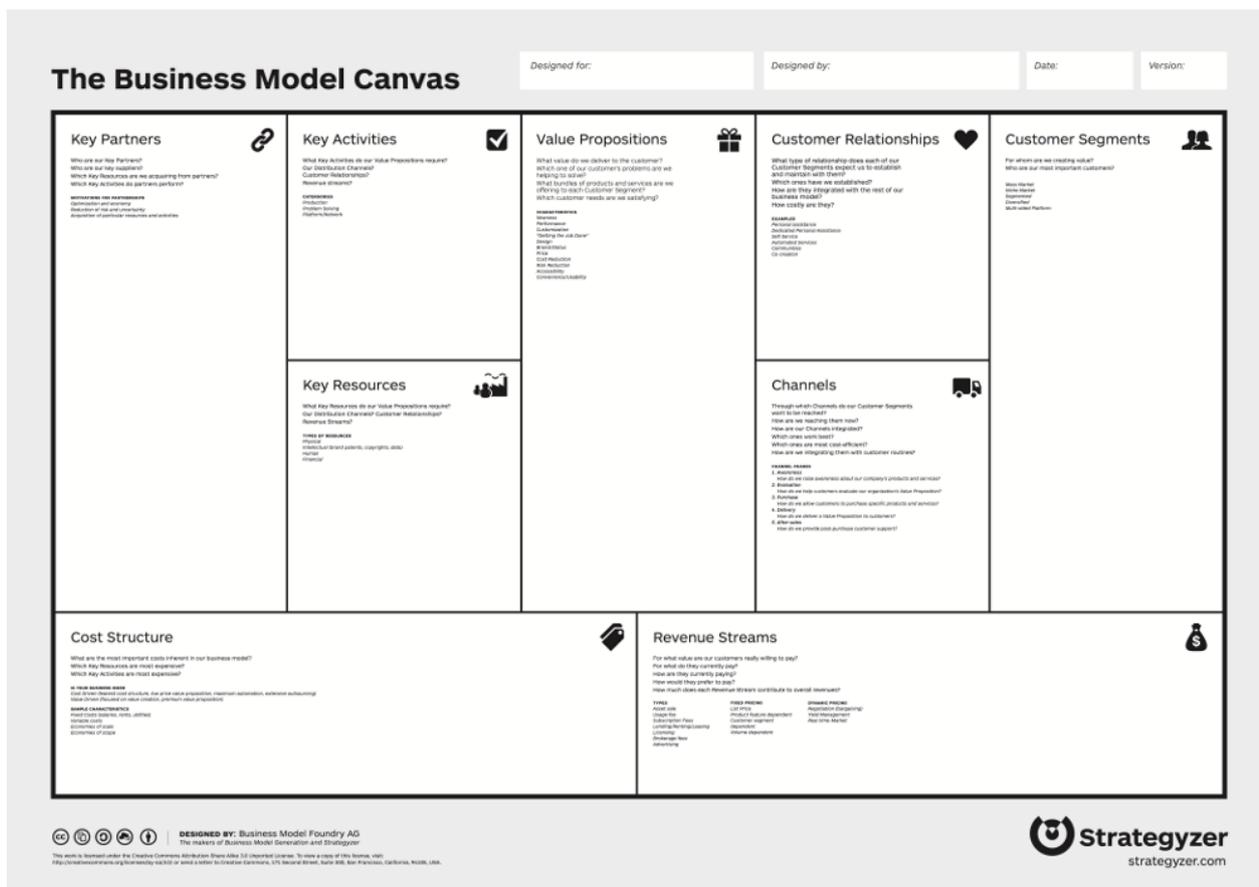


FIGURE 1. The Business Model Canvas (Wikipedia 2017a)

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According to Noren (2013) mainstream business press often conflates business strategies with business models. However, two companies employing the exact same business model may see very different financial results based on their different business strategies (Noren 2013).

Business strategy is often reviewed by Michael Porter's five forces model (figure 2). The five forces are variously applied to either companies or industries, assisting in defining the attractiveness of a market. The five forces are 1) threat of new entrants, 2) threat of substitutes, 3) buyer power, 4) supplier power, and 5) competitive rivalry. Porter's model is applicable to any company in any industry and is not specific to any particular business model. (Noren 2013.)

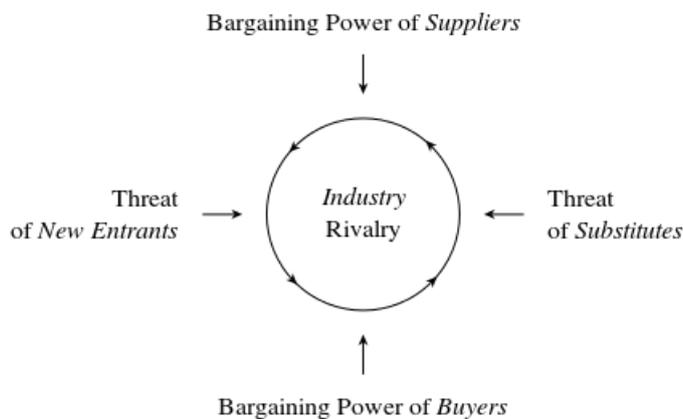


FIGURE 2. Porter's five forces model (Wikipedia 2017b)

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An example of more recent strategic concept is the blue ocean strategy. It is developed by W. Chan Kim and Renee Mauborgne. "The analogy of the red ocean and blue ocean are used to demonstrate the shark-filled and blood-in-the-water environment of a crowded market, versus a strategy that seeks to prosper in the open blue ocean. Companies adopting a blue ocean strategy 1) create uncontested market space, 2) make the competition irrelevant, and 3) create and capture new demand. The goal of the blue ocean strategy is to break the trade-off between value and cost, pursuing both differentiation and low cost at the same time. (Noren 2013.)

General discussion about software business models or game business models is often focused on monetization or delivery models, sometimes both. Approach to digital industry business models is often more technical and straightforward. Marsden (2015), for example, represents 10 business models and 7 business strategies. In practice, business models are monetization strategies. Link to story:

<http://digitalintelligencetoday.com/the-10-business-models-of-digital-disruption-and-how-to-respond-to-them/>

It is important to understand that digital business models are changing all the time. "As digital companies mature, their business models have to change. The rapid emergence and evolution of new technologies mean that new money-making opportunities emerge." (Carmichael 2016).



Market segments for entertainment games and serious games are different. The market segment of entertainment games is strongly focused on Business to Consumer (B2C) market. In the case of serious games typical the situation is more versatile. Typical market segments for serious games are Business to Business (B2B), Business to Consumer (B2C) and Business to Consumer Business (B2B2C). (RAGE 2016, 12 - 13.)

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