

# Funding your app

There are many different options for funding an app, some of which may surprise you. In this chapter we explore the established methods and those which are more unconventional.

## Does your app need funding?

Whether or not you need funding for your app depends on the type of app you're building and your personal situation. You don't want the potential build costs to be a barrier to development, so it's worthwhile anticipating what they could be from an early stage. Some examples:

Productivity, social or gaming apps which require retrieving a user's work, communications, or level may require a cloud storage solution.

Location-based apps that provide directions or proximity information (e.g. a user's distance from a local store) may require maps licensing fees.

Apps accessing proprietary software, such as APIs or development engines (for games), may incur licensing fees, and you may need to purchase more than one package if your app is cross-platform. If you're building a very rich app that needs ongoing development work, you may need to contract or hire developers long term.

Consider hardware costs too; you'll probably want to equip yourself with devices for the platforms you're building for, to enable testing.

## What types of funding are available?

Here we consider established and emerging methods of funding. Established methods of funding are the traditional sources of investment such as self-funding and business loans. Newer, non-traditional methods include crowdfunding. Our rundown examines the merits of each one.

### Self-funding

If your app has minimal costs then self-funding can be a preferable option. If you're developing the app full time, project manage your development time effectively so it doesn't exceed the budget you've set aside to support yourself day to day.

Many developers have success with no outside investment. Park Young Ok, creator of Bouncy Ball, a game with more than 10 million downloads on the Play Store, is an example. Park was working in a regular job after graduating from college, but wasn't fulfilling his dream of building a video game. One day, a senior executive where he worked told him, "You need to do what you love in order to become successful." Park quit his job and focused on making games, "I received no investment. You may say that the impulsive decision to give up my job security was a sort of 'investment'." Explaining his decision to self-fund, he said "Any investment from a third party carries a risk. An investment of that kind can make developers or development teams stressed out. This is why I have never seriously considered seeking funding."

Another option is to partner with other app developers, perhaps those with skills complementary to your own (e.g. graphic design, ability to code on different platforms), to form a company, work on the same project and split the costs.



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**PARK YOUNG OK**

*Founder of Raon Games, Bouncy Ball*

### **Bank loans**

The traditional route for a regular small business is perhaps a less well-trodden path for app developers. This can be attributed to the infancy of the app economy and perhaps the lack of familiarity that banks have with the various business models. But that doesn't mean this method is off limits. Banks will back businesses with a good strategy and you'll need to provide a business plan with forecasts of your expected return on investment.

### **Friends and family**

What better way to measure the worthiness of your concept than by asking close ones to invest? True, these should be the very people whom have faith in you regardless, but their willingness to match that confidence with cold, hard cash will say a lot for your idea. Traditional models involve offering a percentage share of profits to your investors, or simply repaying their investment at a rate more favorable than you'd obtain from a financial institution.

### **Angel investors**

Angel investors should be able to offer something valuable in addition to financing: market expertise. When seeking an investor look for those that specialize in app development. Their experience and connections may help you further down the line, with aspects like marketing your app, and you'll be able to use them as a sounding board on a regular basis. In this relationship the investor will likely own a share of the business and may take an active role in important decisions.

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### **Venture capitalists**

Newer app developers may not immediately think of venture capitalist funding as an option, but VC funds have seen app developers as serious investments for a while now. Investment bank Digi-Capital reported that funding for mobile gaming apps reached \$876M in the year up to Q3 2013.[14]

For the developer, tapping into the right networks to set up meetings takes more effort, and there's the perception that a product has to be on the verge of going 'prime time' before an investor will be interested, yet there are opportunities.

# Marvin Paul

We spoke with Marvin Paul, co-founder of the shopping list app, Out of Milk, about his path to venture capitalist funding. Marvin started Out of Milk with fellow developers in 2010.

**At what point did you decide your app required funding?** *"We started the app in August 2010, and by September 2011 we were looking for funding. At the time, things were working because we had our day jobs so we could pay for the servers. Then we'd be working from home at night. But we had problems juggling our jobs and working on the app. We didn't have enough revenue from the app to support all of us, so we couldn't quit our jobs unless we were prepared to live off credit cards. We wanted to take a safer approach so we considered other options."*

**When did venture capitalist funding become a realistic option?** *"I flew to San Francisco to meet with some people I knew who also had a start-up. Their start-up was part of an incubator and they encouraged me to join an incubator program and also seek funding. Previously I thought VC funding would be only for really big things, but after that trip I realized that all kinds of apps can get funding. As we were going through the incubator process someone got in touch with us who's an expert in acquisitions, and he knew a lot of investors. He introduced us to venture capitalists and we struck up relationships with people who went on to become our investors."*

**What are the benefits of venture capitalist funding?** *"Investors are generally well connected, so they put you in touch with start-ups you may not otherwise have known. This can lead to partnerships and give you conversations with lots of experienced, smart people who can provide you with sound business advice. Also, aside from the security, once you have funding you can move faster and plan ahead with more confidence."*

## Crowdfunding

Crowdfunding is increasingly popular; it's a way to raise funds from members of the public looking to invest in, or back, a great idea. Typically it works like this: you promote your app on a crowdfunding website and specify the amount you're looking to raise. You explain your app, showcase a demo if you have one, and outline how you'll spend the funds. You may need to outline the terms of investment as well; in some cases this amounts to offering investors a percentage share in your profits but this isn't always so.

## Crowdfunding Benefits

Viable way to raise a significant amount of funds in a short period of time.

Crowdfunding can give you the opportunity to be creative and flexible in the terms you set between you and your investors/backers. It depends on what you can bring to the table, but some options include offering a lifetime subscription to the app instead of profit sharing, or even swag like T-shirts for lower funding goals. No doubt, a more attractive deal will yield more market backing.

Listings on crowdfunding sites are usually free, or have success-based models, and you can translate this experience into early promotion (and perhaps validation) for your app and an opportunity to recruit beta testers.

If you place your project with a crowdfunding platform just focused on apps, such as AppStori or AppBackr, the community will have a good understanding of apps and you're more likely to receive insightful feedback.

## Crowdfunding Challenges

It's difficult to predict if your app will be funded at all, or how long it will take to reach your desired amount. In some cases you need to secure the full amount you're requesting before you get the funds, so it's all or nothing.

If you're successful, it's usual for the crowdfunding service to charge a fee. That could be on top of other fees for processing the funds.

Not all apps are accepted into these programs but this can also be a good thing, serving to keep the quality of apps high.

### INTERVIEW

## Arie Abecassis

We spoke with Arie Abecassis, co-founder of AppStori, to explain why crowdfunding is a viable option for developers.

*"I was being regularly approached by app entrepreneurs who wanted to find out if a) their app was a good idea, and b) if I could somehow help them fund it? This scenario happened again and again and got me thinking whether there could be an online platform that takes "the crowd" and empowers them to help these ideas come to market.*

*So, from there, I started AppStori with a co-founder, and we officially soft-launched in mid-2012 with a pilot group of developers on our curated platform. We made a decision not to accept every app that submitted to the platform, and vet them the same way that an accelerator would by looking at filters like the team, product idea and commitment."*



If you have a free game and choose to limit some features, you won't get as many downloads because users might think they have to buy everything. If they can't play without buying things they will get demotivated and will no longer play with the app.

### TONI FINGERROOS

*Founder & CEO, Fingersoft*

*After we launched, the feedback we received was that a lot of the value that app devs were realizing from AppStori was in how it helped them with the marketing (and beta testing) prior to launch, a problem which is becoming acute as more apps flood the market. There is a real and growing challenge of how you get discovered and validate what you're working on.*

*It became clear that funding was only one of the pain points for app developers, which is why we like to think of AppStori as not just crowdfunding, but as crowdsourcing. Really, you're developing a brand, your market position and you're getting real market feedback. I think that app developers, in this era where there is so much clutter, need to expose their idea much earlier to a wider market and develop marketing strategies, all of which we help support.*

*When you build a product you need to think about marketing from the get go, so we force developers to work on that*

early on by asking them to put a promo video together. They need to think about how they will represent themselves to the broad market, say what they are building, and what value it represents.

For AppStori users - those backing the projects - it's a way to empower them in the app creation process. They can support friends on the platform, and also discover other apps that are coming through the pipeline. It's a combination of discovery, participation and rewards. Awards tend to be items like T-shirts or other kind of goodies that may be relevant to the app. When we set out to build the platform we wanted to lower the barriers to bringing developers and consumers together. This is why we decided to adopt a success-based model instead of profit sharing, which would mean revenue sacrifices for developers and the addition of several degrees of complexity. Instead, we wanted to keep the proposition clean and build a higher quality base of projects for people to support.

We've had quite a few successes where apps have been fully funded for the amount they were seeking. For instance, we have an app called Sooligan (based in Arkansas, US) which is a local discovery app for folks in new cities looking for things to do. They were part of an offline accelerator and were going through that process when they joined AppStori. They raised more than \$2500 to help refine and launch their mobile app. A lot of people think of innovation occurring in the usual places like New York or the Bay Area, but there are a lot of interesting ideas all over, and our platform breaks down those geographic barriers.