PREMIUM VIDEO HEATS UP AS MORE STREAMING SERVICES ENTER THE FRAY

Q3 2019
A COMPETITIVE LANDSCAPE

The premium video streaming landscape continues to get more competitive as new direct-to-consumer offerings hit viewer screens. In November 2019, Apple TV+ and Disney+ debuted with NBCU’s Peacock and Warner Media’s HBO Max set to follow in 2020.

Companies have a range of objectives for their new streaming services, but at their core all desire to build direct relationships with viewers. These relationships will allow them to cross-sell products like toys or theme parks and limit the potential for disintermediation from aggregator platforms.

Their introduction is likely to shake up the competitive landscape, but the overall market trends in ad-supported premium video observed in previous quarters look set to continue.

CHART 1
TOP LINE GROWTH AND BREAK-OUT OF AD VIEWS BY SYNDICATION平台, U.S.
Q3 2019

1. Distributor platforms represent two-thirds of ad views versus publisher owned-and-operated platforms, and are also growing faster.

2. IP-based delivery platforms make up almost 80% of the dynamically inserted ads and are growing significantly faster than traditional set-top-boxes as viewing habits evolve.

3. The IP-enabled ‘TV Everywhere’ options offered by traditional MVPDs represent a relatively small portion of IP-based delivery, with streaming services from virtual players taking the lion’s share of ad views.
THE IMPACT ON AD-SUPPORTED CONTENT

Subscription services offer video-on-demand content from various sources (including originally produced content), as well as live TV from traditional networks. Netflix was the pioneer in the streaming services field and famously maintains an ad-free, subscription-only model. A number of services are initially following suit (see chart 2).

CHART 2
OVERVIEW OF SELECT STREAMING SERVICES, U.S.

<table>
<thead>
<tr>
<th>Service</th>
<th>Average Monthly Cost*</th>
<th>Advertising</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netflix</td>
<td>$12.66</td>
<td>No</td>
<td>Licensed shows and movies and Netflix originals</td>
</tr>
<tr>
<td>Amazon Prime</td>
<td>$8.99</td>
<td>Ads for original content &amp; some live sports</td>
<td>Licensed content, Amazon originals and Thursday night football</td>
</tr>
<tr>
<td>Hulu</td>
<td>$8.99</td>
<td>Some ads on less expensive plans</td>
<td>Live and on-demand content from multiple networks</td>
</tr>
<tr>
<td>Disney+</td>
<td>$6.99</td>
<td>No</td>
<td>Movies and series from Disney brands</td>
</tr>
<tr>
<td>CBS All Access</td>
<td>$7.99</td>
<td>Some ads on less expensive plans</td>
<td>Live CBS channels and CBS originals catalog</td>
</tr>
<tr>
<td>HBO Now</td>
<td>$14.99</td>
<td>No</td>
<td>HBO series and movies</td>
</tr>
<tr>
<td>FuboTV</td>
<td>$66.24</td>
<td>Yes</td>
<td>Focus on live sporting events</td>
</tr>
<tr>
<td>Sling</td>
<td>$30.00</td>
<td>Yes</td>
<td>Live TV channels both national and local</td>
</tr>
<tr>
<td>PlutoTV</td>
<td>Free</td>
<td>Yes (no sign-up required)</td>
<td>Live content and some back catalog on-demand content</td>
</tr>
<tr>
<td>TubiTV</td>
<td>Free</td>
<td>Yes (no sign-up required)</td>
<td>Live content and some back catalog on-demand content</td>
</tr>
</tbody>
</table>

*Average of multiple packages where they exist. Based on publicly available data as of November 2019.
However, despite the current popularity of subscription-only models, a number of factors suggest advertising will play an increasingly important role in premium video streaming.

1. **The ‘freemium model’.** Consumers appreciate having a choice between less expensive, ad-supported content and a higher fee-paying, subscription model. This is similar to the pricing in other content domains e.g., Spotify’s pricing for music streaming.

2. **Cost pressure.** There is evidence that cost pressure to recoup content and service enablement fees will continue to build. For example, last year Sling raised its Orange package price by 25%[1], and it has been estimated that to break even Disney will need to attract 60-90 million subscribers by 2024[2]. Therefore service providers will be under increasing pressure to raise prices, or to generate revenues from other mechanisms, such as advertising.

3. **Advertisers seek access to younger audiences.** Younger generations consume TV digitally at higher rates (see chart 3), and advertisers looking to tap into these lucrative demographics may be willing to pay a premium. This would offer a tantalizing revenue opportunity for subscription service providers and likely support adoption of ad-supported models.

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**CHART 3**

**U.S. VIDEO-ON-DEMAND (VOD) SERVICES VIEWERS**  
PERCENT OF TOTAL INTERNET USERS IN GIVEN DEMOGRAPHIC  
H1 2018

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-24</td>
<td>92%</td>
</tr>
<tr>
<td>25-34</td>
<td>88.2%</td>
</tr>
<tr>
<td>35-44</td>
<td>81.5%</td>
</tr>
<tr>
<td>45-54</td>
<td>66.9%</td>
</tr>
<tr>
<td>55-64</td>
<td>52.3%</td>
</tr>
</tbody>
</table>

Source: The Global Media Intelligence Report 2018 eMarketer

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[1] Sling TV Raises Price of Live TV Streaming to $25 Per Month  
[cnet.com]

[2] Disney+ Launches, Representing The Capstone Of Bob Iger’s Tenure  
[Forbes.com]
The Power of Premium Video

Advertiser demand for premium video will only increase as scale of audiences, sophistication of targeting, and simplicity of access improve. Data from the Video Marketplace Report for Q3 2019 demonstrates the value for advertisers:

1. Overall video ad views grew 46% year-over-year, driven in large part by connected TV (up 110% YOY). This immersive viewing platform constituted 56% of all ad views.

2. Premium video ad completion rates remained extremely high, between 78% to 98% across content formats for both pre-roll and mid-roll, showcasing the value of premium video to advertisers.

3. Audience targeted ad views grew 34%. Although this growth comes from a small base, it is an indication of advertisers' demand for data-backed targeting solutions which are enabled by companies like FreeWheel and industry consortiums like OpenAP. Behavioral targeting constitutes most of audience targeted ads (69% share), showcasing advertisers' appetite for more than just simple demographic targeting.

4. Direct deals continue to comprise the majority of transactions with a share of 79%. However programmatic ad views grew 76% YOY, twice as fast as direct deals.

In conclusion, we see a bright future for ad-supported premium video as more direct-to-consumer products enter the market. The fundamentals of premium video remain strong, and it is an engaging environment for advertisers to connect with consumers. In addition publishers and distributors will need to recoup the content and technology costs of their new services in a competitive market. This bodes well for advertisers being able to access premium video to tell their stories.
**Chart 4**

Video Ad View and Ad View Growth, U.S.
Q3 2018 - Q3 2019

- **+37%** Video Views
- **+46%** Ad Views

**Chart 5**

Content Composition by Format, U.S.
Q3 2018 - Q3 2019

- **Q3 2018**
  - Clips (0-5 min.): 56%
  - Full-episodes (5+ min.): 33%
  - Live: 11%

- **Q3 2019**
  - Clips (0-5 min.): 57%, +4% YOY
  - Full-episodes (5+ min.): 36%, +25% YOY
  - Live: 7%, +100% YOY
CHART 6
AUDIENCE SEGMENT TYPE
SHARE OF TARGETED
CAMPAIGNS, U.S.
Q3 2019

**Audience Segment Type***

- **31%** Demo
- **69%** Behavioral

*‘Demo’ audience segment types are those that target based on age and gender

*‘Behavioral’ audience segment types are those that target more advanced segments such as auto intenders, sports enthusiasts etc.

CHART 7
TARGETED AD VIEW GROWTH, U.S.
Q3 2019

+34%

AUDIENCE TARGETED
Chart 8
AD VIEW COMPOSITION AND GROWTH, BY DEVICE, U.S.
Q3 2019

Chart 9
FORMAT COMPOSITION BY DEVICE, AD VIEWS, U.S.
Q3 2019

- Desktop: +7% YOY
- Mobile: +16% YOY
- STB VOD: +13% YOY

- Connected TV: 3%
- Mobile App: 12%
- Mobile Web: 55%
- Mobile App: 58%
- Mobile Web: 27%
- Mobile Web: 18%

- Desktop: 56%
- Mobile Web: 43%
- Mobile Web: 42%
CHART 10
SHARE AND GROWTH OF AD VIEWS BY DISTRIBUTION PLATFORM, U.S.
Q3 2019

Total Volume of Ad Views, U.S.

65%  Distributor Platforms  +78% YOY

35%  Publisher Platforms  +9% YOY

Distributor Platform

DIGITAL / IP

78%
+113% YOY

STB

22%
+13% YOY

Q3 2019 / FREEWHEEL VRM - U.S. / #FreeWheelVRM
CHART 11
SHARE AND GROWTH OF DIRECT AND INDIRECT DEALS, AD VIEWS, U.S.
Q3 2019

Total Volume of Ad Views, U.S.

Direct
+38% YOY

Indirect
+76% YOY

21%

79%
CHART 12
AVERAGE NUMBER OF ADS PER MID-ROLL BREAK, FULL EPISODES, U.S.
Q3 2019

Q3 2018 vs. Q3 2019

Q3 2019 by Device

Distribution of Ads per Mid-Roll Break

CHART 13
AD COMPLETION RATES BY AD UNIT AND CONTENT DURATION, U.S.
Q3 2019
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Leads FreeWheel's Advisory Services team, where he helps clients navigate the ever-evolving premium video ecosystem. Prior to joining FreeWheel, David spent a decade leading growth strategy initiatives at leading agencies, consultancies, and professional services firms.
Glossary

Ad Completion Rate: Measures the percentage of ads that were completed once started.

Ad View: An impression that is accrued after the first frame of an ad is displayed.

Aggregator: A high-traffic content aggregator, for example AOL or MSN.

AVOD: Advertising video on demand business model.

Connected TV (CTV): A television set that is connected to the Internet via OTT devices, Blu-ray players, streaming box or stick, and gaming consoles, or has built-in internet capabilities (i.e., a Smart TV) and is able to access a variety of long-form and short-form web-based content.

Content vertical: Content genre, e.g., news, entertainment, sports.

Deal ID: Unique deal identifier of a programmatic transaction that can be used to match advertisers and publishers directly.

Direct-sold: Advertising deals made directly between a publisher and an advertiser.

Distributor: A party other than the content rights owner that manages the platform upon which content and advertisements are delivered.

Dynamic Ad Insertion (DAI): Process of dynamically inserting ads into a content stream, such that different ads can be inserted into the same ad break.

FreeWheel Council for Premium Video (FWC): Serves the interests of those in the premium video industry through leadership positions, research, and advocacy to promote the premium video economy.

Hybrid broadcast broadband TV (HbbTV): Global initiative aimed at harmonizing the broadcast and broadband delivery of entertainment services to consumers through connected TVs, set-top boxes and multiscreen devices.

Impression: Occurs each time an ad is displayed. Synonymous with “ad view”.

Inventory: An ad opportunity. A piece of inventory is filled by an ad impression.

Linear: Traditional broadcast, cable, or satellite television.

Long-tail: Small scale/niche content aggregators.

Mid-roll: An ad break that occurs in the middle of content.

Multichannel Video Programming Distributor (MVPD): Provides pay TV services delivered either through broadcast satellite or cable TV. Examples include Comcast and Verizon.

New Living Room: The same high-quality TV content that was traditionally consumed in the living room is experienced today by the same audience through a multitude of screens and locations.

Operator: Provides pay TV services in the EU, functioning similarly to MVPDs in the U.S. Examples include Sky UK, Sky Germany and SFR.

Over-the-top (OTT): Viewing content delivered over an internet connection. Typically seen as OTT Device, which includes devices like Roku, Apple TV, Connected TVs, etc.

Over-the-top Device (OTT Device): Viewing content delivered over an internet connection on a TV streaming device, including devices like Roku, Apple TV, Connected TVs, etc.

Pre-roll: An ad break that occurs before content starts.

Premium Video: Video content that is professionally produced, rights managed, and limited in supply.

Programmatic: The use of automation software or managed services to execute an advertising deal.

Programmer: U.S. publishers that generate the majority of their advertising revenue from linear TV services and offer a diverse content mix in digital environments as well.

Publisher: Producers or syndicators of content. This can be programmers or digital pure-plays.

Server Side Ad Insertion (SSAI): Technology that enables the stitching together of video and ad content prior to delivery to the player.

Set-top Box Video On Demand (STB VOD): Accompanies a cable.broadcast/satellite setup. Contains a cable input and outputs to a TV. Integrations via FourFronts STB VOD and Canoe Phase III.

Simulcast: A digital stream of a live event that is simultaneously broadcast on linear TV.

Syndication: Viewing that occurs outside of a publisher’s Owned and Operated properties or primary platforms.

TV Everywhere (TVE): Apps that allow viewers to access content over the Internet by logging in with their MVPD subscription credentials.

Video Start: Accrued after the first frame of video content is displayed. Formerly referred to as video view.

Virtual MVPD (vMVPD): Digital-only cable alternatives that offer access to both live and on demand premium video content for a subscription fee.
THE FREEWHEEL VIDEO MARKETPLACE REPORT highlights the ways in which advertisers, publishers and distributors are using premium video content to drive advertising outcomes.

The data set used for this report is one of the largest available on the usage of professional, rights-managed video content worldwide, and is based off of census-level advertising data collected through the FreeWheel platform.