Overcoming Complexity: Advertising in a Fragmented Landscape

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Introduction

The current video environment is notoriously fragmented with a boom in streaming services across diversified platforms over the past five years. Advertisers and marketers must be agile as they navigate this fragmented landscape and rapidly changing privacy laws to reach intended audiences with relevant content.

Ad-based video streaming services are among the fastest-growing segments of the video entertainment market. Inflation and fears of a recession are motivating consumers to evaluate discretionary spending and cancel legacy pay-TV or subscription-based streaming services as a means of cutting costs.

> Monthly spending on video streaming services has declined by 25%, from $90 in 2021 to $73 in 2023.

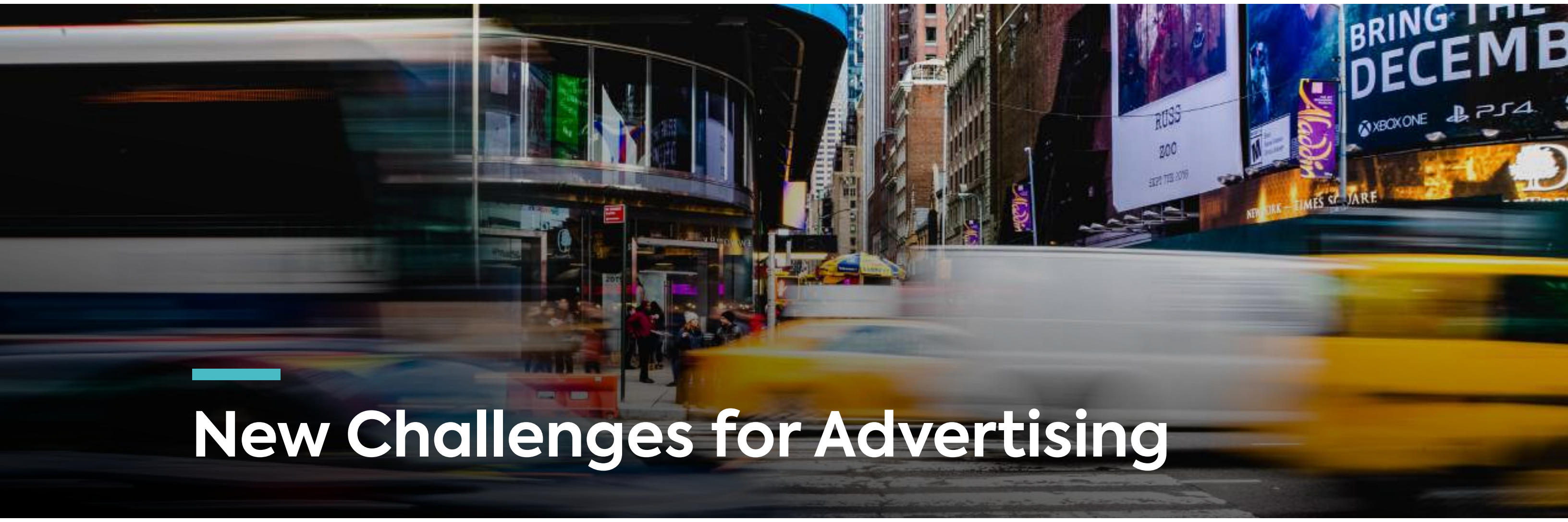
A variety of ad-supported models offer consumers access to streaming content in a cost-effective way.

- **Advertising Video on Demand (AVOD)** services, like Freevee and Crackle, offer a library of free content for on-demand viewing.
- **Free Ad-Supported Television (FAST) services,** like Pluto TV and Tubi TV, offer a bundle of live/linear channels for free, with ads.
- **Subscription Ad-supported Video on Demand (SAVOD) services**, like Hulu, Netflix, and Disney+, combine free ad-based tiers with premium subscription tiers.
- **Streaming TV/Virtual Multichannel Video Programming Distributor (vMVPD) services**, like YouTube TV and Fubo, require a premium subscription, and offer live/linear channels, but also include advertisements, replicating the traditional pay-TV model.

Ad-supported streaming opens several new methods of advertising, enabled by customers' use of multiple addressable viewing devices. The more data that can be collected about the viewer, the better advertisers can tailor their marketing efforts and customize audience reach, but streaming services don't yet offer the same inventory as traditional TV.

At the same time, digital ads on social networks, gaming platforms, and mobile video streams are pushing the envelope on engaging, actionable ads that offer far more interactivity than is standard in a TV environment today.

This white paper assesses challenges for advertisers in a fragmented media landscape and how advertising is evolving to accommodate new ad-supported streaming models and privacy practices for a future that is better coordinated, transparent, engaging, and targeted.



New Challenges for Advertising

The media market is transforming with technology, distribution, revenue models, and advertising mechanisms all in flux. Under the traditional broadcast and pay-TV model, advertisers previously enjoyed a relatively concentrated choice of video distributors that offered premium content to viewers and had consistency in their measurement tools. They now face a fragmented market, with fickle viewers shifting in and out of services quickly.

> Nearly half of OTT subscribers hop from one streaming service to another multiple times over a 12-month period.

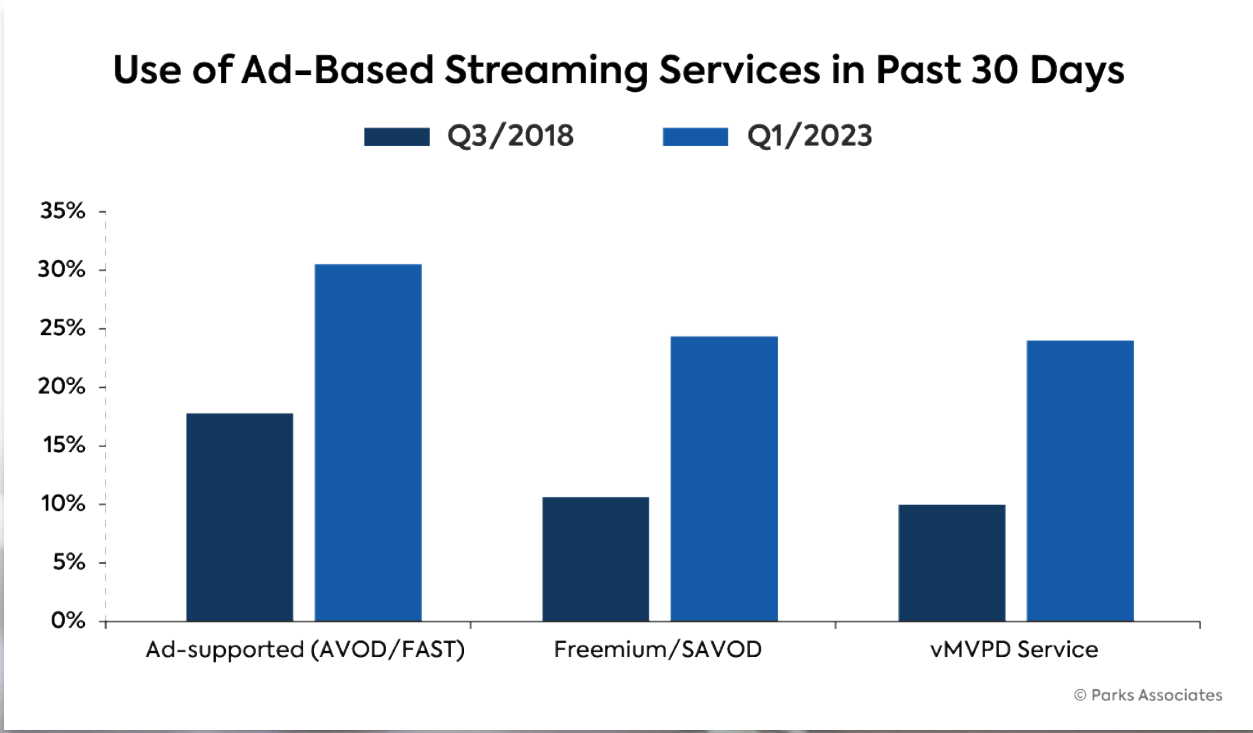
At the same time, data has never been more abundant or personal. Smart TVs, streaming media players like Roku and Fire TV sticks, and mobile phones generate data insights that traditional TV sets did not provide. The vast majority of internet households with TVs have at least one smart set, while just 25% of US internet households own a TV set but do not have at least one smart TV at home (or are not aware that their TV can be connected to the internet). Leveraging that data to provide relevant content and digital advertisements to keep viewers engaged is crucial, and tricky. Data is fragmented across operating systems and applications, and viewer consent is required. Businesses can no longer collect personal user data without first acquiring consent. Data collection and management must be transparent, and new legislation is helping enforce these privacy requirements.

This is great for the consumer but presents new challenges for advertising.

Diversification of Streaming Models: The Rise of Ad-Based Streaming

Streaming is the dominant form of video consumption. The shift from broadcast and traditional pay-TV to online distribution also shifted viewing models from bundles of live/linear channels to video-on-demand consumption. Initial OTT business models were predicated on the absence of advertisements in exchange for a small subscription fee.

As these subscription-based video-on-demand (SVOD) services (e.g., Netflix) experienced success, more players entered the streaming market and competition increased. **According to Parks Associates' data from Q1 2023, 87% of internet households subscribed to at least one OTT service, and 47% subscribed to at least five.** In contrast, just 44% of internet households still subscribe to a traditional pay-TV service. Streaming business models have since diversified. Consumers increasingly use ad-supported methods to access content.



Ad-based streaming models such as FAST and AVOD services derive most or all revenue from advertisers and are available at no cost to the consumer. FAST and AVOD models are now even more popular as consumers look for ways to access entertainment, but to also ease their wallets and subscription fatigue. Ad-supported services grant access to hours of entertainment with no fees, and sometimes even without creating an account.

Roughly 28M households subscribe to a leading vMVPD service.

Streaming TV and hybrid streaming models, both of which rely on a mix of subscription and advertising revenues to achieve profitability, are also on the rise. Netflix, Disney+, Hulu, Paramount+, and Max (formerly HBO Max) all offer ad-based tiers. These are prime examples of new hybrid or "SAVOD" services. Streaming TV services, from vMVPDs like Sling TV, YouTube TV, Fubo, and Hulu + Live TV, as well as streaming options from traditional TV players like DIRECTV, replicate the traditional pay-TV experience with bundles of live/linear channels, premium content, live news, and sports for a premium subscription price and advertisements.

Fragmentation of Platforms and the Rise of Mobile

With streaming video, the sheer volume of platforms on which consumers can watch video has exploded. This creates more challenges for advertisers. Today, video can stream to TVs directly or through streaming media players, as well as to PCs, smartphones, tablets, game consoles, smart displays, and even vehicle infotainment systems. For each device type, there are any number of operating systems and service platforms with unique requirements, advertising models, and reporting processes for partners. Even among services on the same device platform, differences abound. Differences in advertising programs from The Roku Channel, Amazon Freevee, and Crackle highlight the complexity.

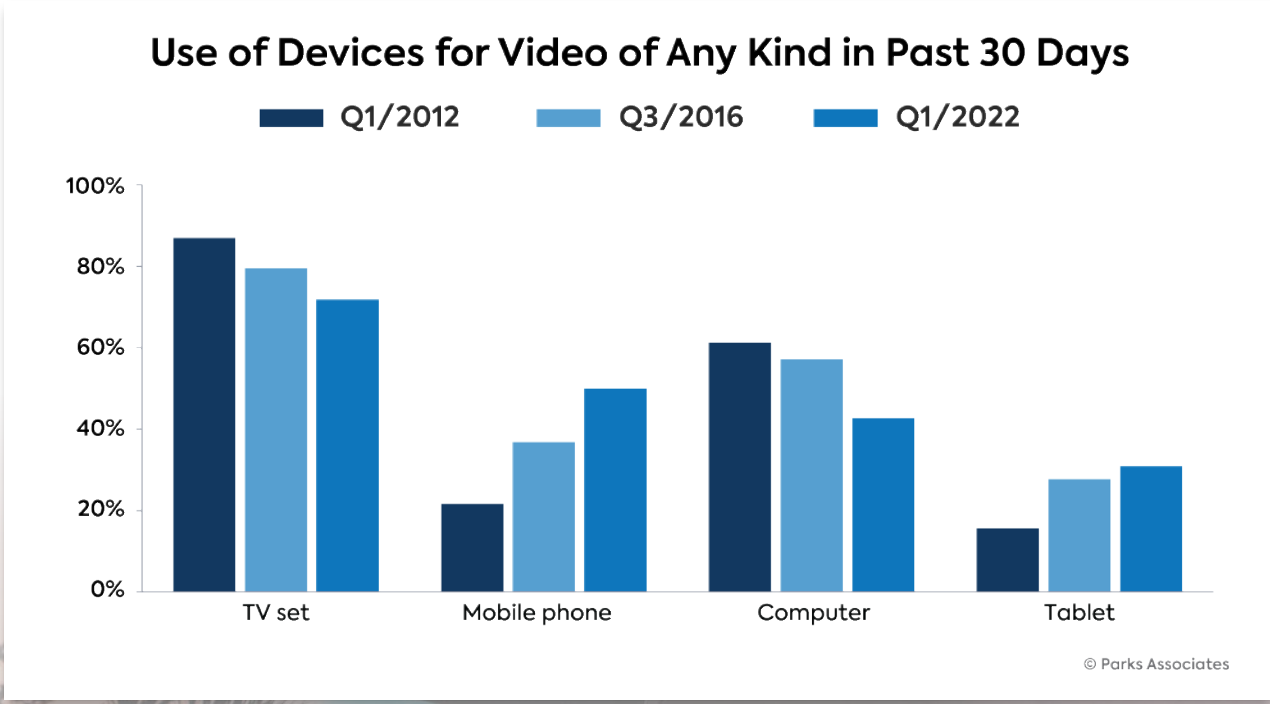
- All channels on the free ad-supported service The Roku Channel require the use of Roku Ad Framework (RAF), a native advertising solution that is integrated directly into the Roku Software Development Kit (SDK).
- Channels can choose to have Roku manage the ad inventory, taking 40% of net revenue earned on paid ads served in the channel, and ad impression reporting is available upon request. Or channels can set up their own ad server and manage their own ad sales. In this option, they keep control of 70% of ad inventory and 100% of the gross revenue earned from those ads, while Roku retains 30% of the channel's ad inventory and resultant revenue. In this model, Roku does not support ad impression reporting.

- Amazon Freevee (formerly IMDb TV) is an AVOD service with original and licensed programs that are owned by Amazon. It announced in May 2023 that it will bring over 100 Amazon Original titles to Freevee, to be released throughout the year. This will be the first time that advertisers can advertise against Amazon Originals in a traditional ad format, rather than product placement.
- Self-service packages have a $10k recommended campaign minimum and managed-service packages have a $50k campaign minimum. Ads are sold programmatically and priced via CPM.
- Pricing for ads through Amazon DSP varies depending on format and placement. Self-service customers are in full control of their campaigns, and there are no management fees. The managed-service option typically requires a minimum spend of $50,000 USD.

- Crackle is one of 7 AVOD networks owned by Chicken Soup for the Soul Entertainment (CSSE). CSSE also owns Redbox, which has AVOD and FAST assets in addition to its out-of-home kiosk network.
- Crackle Connex, the company's advertising sales platform, allows companies to integrate campaigns across AVOD, FAST, and kiosks. It also has an audience extension program with 20 third-party ad-supported services like Crunchyroll, Funimation, and Tastemade, as well as vMVPD services Vidgo and Frndly TV. This arrangement allows advertisers to scale their buying across ad-supported platforms.
- CSSE also offers viewers rewards for watching programming, to encourage ad engagement, through a partnership with TaTaTu.

Mobile video viewing has grown 152% in just four years and now accounts for about 18% of all video consumption hours among US internet households. The influence on mobile consumer viewing expectations, content owners, and advertisers can't be understated. Parks Associates research finds that mobile is the dominant platform for video consumption for younger consumers, and less than half of 18-to-24-year-olds watch any video on a TV over a thirty-day period.

The mobile phone and tablet viewing experience is far more interactive and personalized than any TV-based streaming experience today. It offers immediate opportunities for commerce, ad engagement, and more interaction with content creators. These features challenge streaming providers and connected TV platforms to evolve to match mobile capabilities and present new opportunities for advertisers.



Overcoming Complexity in Video Advertising

Compared to cable, advertising on streaming is more complex and less standardized. Add in pressure to ensure consumer privacy and that leaves a large challenge that advertisers and brands will need to effectively navigate.

Impacts of Fragmentation: Breakage and Over-frequency

Advertisers have never had so many platforms through which to publish digital advertisements, including connected TV (CTV) device platforms, streaming services (e.g., FAST, AVOD, vMVPDs), social media networks (e.g., Facebook, Instagram, TikTok), websites, internet video (e.g., YouTube), video and mobile games, vehicle infotainment systems, taxis, gas pumps, digital billboards, and even appliances with built-in screens. The countless platforms and partners that content owners and advertisers must navigate results in an unstandardized system, leading to confusion about procedures or benchmarks that limit ad monetization.

Over-frequency: When the same ad is repeated multiple times during a stream such that it becomes ineffective and annoying.

Breakage: Breakage most often occurs during live events and represents when an ad space is not filled; instead of an ad during a commercial break households see a blank screen with "be right back."

Advertisements on streaming work differently than on traditional linear. Streaming ads are addressable and only served when a stream is active whereas linear ads are largely based on airtime. Streaming ad inventory is sold across multiple platforms, through multiple intermediaries who do not talk to each other. This leads to over-frequency (same ad repeated multiple times in a stream) and breakage (unfilled ad space during a commercial break). Viewers notice.

32% of ad-based streaming service viewers stop watching videos when an ad repeats itself too many times.

Another common user experience issue is with the frequency of ad breaks themselves. **Among ad-based OTT service users, 43% felt there were far too many ads shown on the service, and 46% felt the ads shown were too often for personally irrelevant products or services.**

Running an ad on linear can be planned down to a precise timeslot during a specific show. On streaming, the circumstances are much vaguer. Buying FAST ad inventory is typically done programmatically, and there is no standardized way to pass video metadata across platforms to help identify video content. This limits buyers' ability to know exactly when and where their ads were shown.

The following initiatives are working to combat these issues:

AD-ID Our Industry's Ad Registry

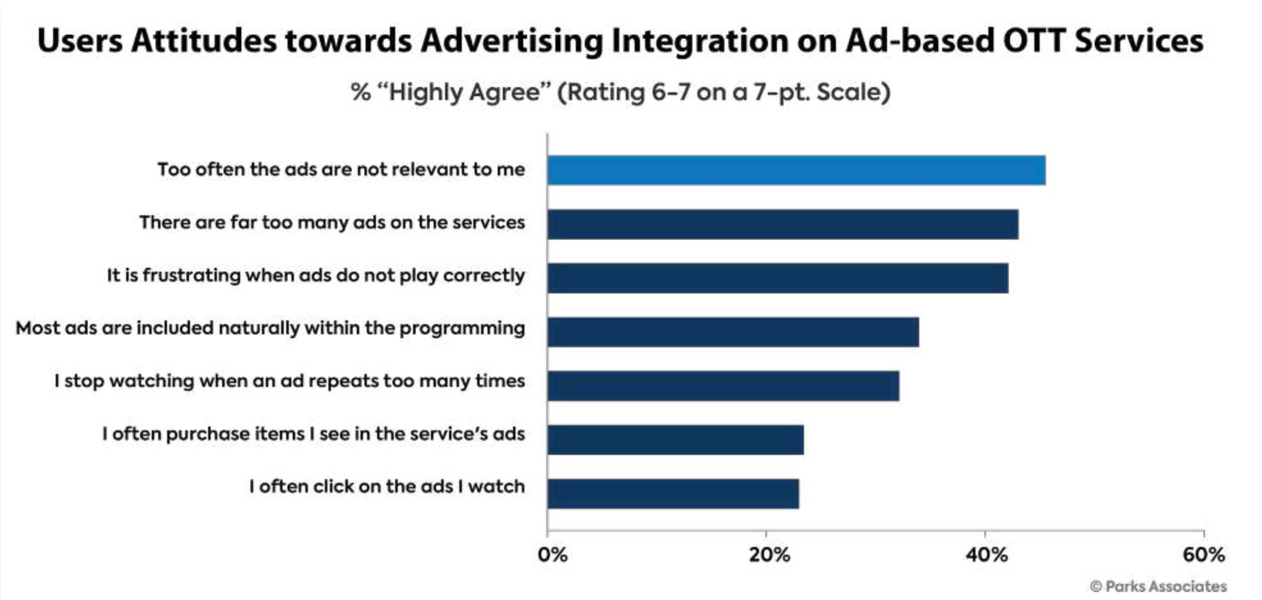
Ad-ID was originally introduced in July 2002 by the American Association of Advertising Agencies and the Association of National Advertisers. Ad-ID gives each advertisement a unique identifier based on information such as title, length, and product detail. This code can then be used to recognize an ad across platforms for better data, inventory management, and delivery.

C2PA

The Coalition for Content Provenance and Authenticity (C2PA) created the first industry standard for authenticity and digital provenance. This open standard allows publishers, creators, and consumers to trace the origin of digital media, including AI-generated images and videos. For advertising, this can help ensure that ads are not fraudulently generated by AI.

IRIS ID Advanced Identity Authentication™

Iris TV created **IRIS_ID**, a unique video identifier that is assigned to every video ingested into its platform. The identifier passes into the bid stream and can be decoded by data partners that define characteristics of the video, such as the video's mood, brand safety elements, people, and places in the content. As a result, buyers and sellers will be able to pinpoint exactly what content an ad will play next to.



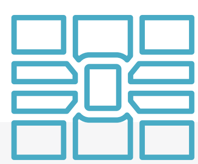
Beyond Cookies: First-Party Data and How to Move Forward

Third-party cookies, data collected by companies with no direct association to the user, are used across the entire web to track user browsing behavior and deliver personalized advertisements. Third-party cookies can share personally identifiable information (PII) with other third parties.

New privacy laws now require that companies be transparent about what data is collected and how that data is used, while also offering the user choice and control over its collection. But blocking cookies is not the end-all solution. If anything, it drives the use of even more nefarious methods, such as fingerprinting. Users can block cookies, but they may not even be aware if a website is using their fingerprint and cannot block it.

Marketers must shift strategies. Instead of behavioral targeting through cookies, first-party data will become more valuable.

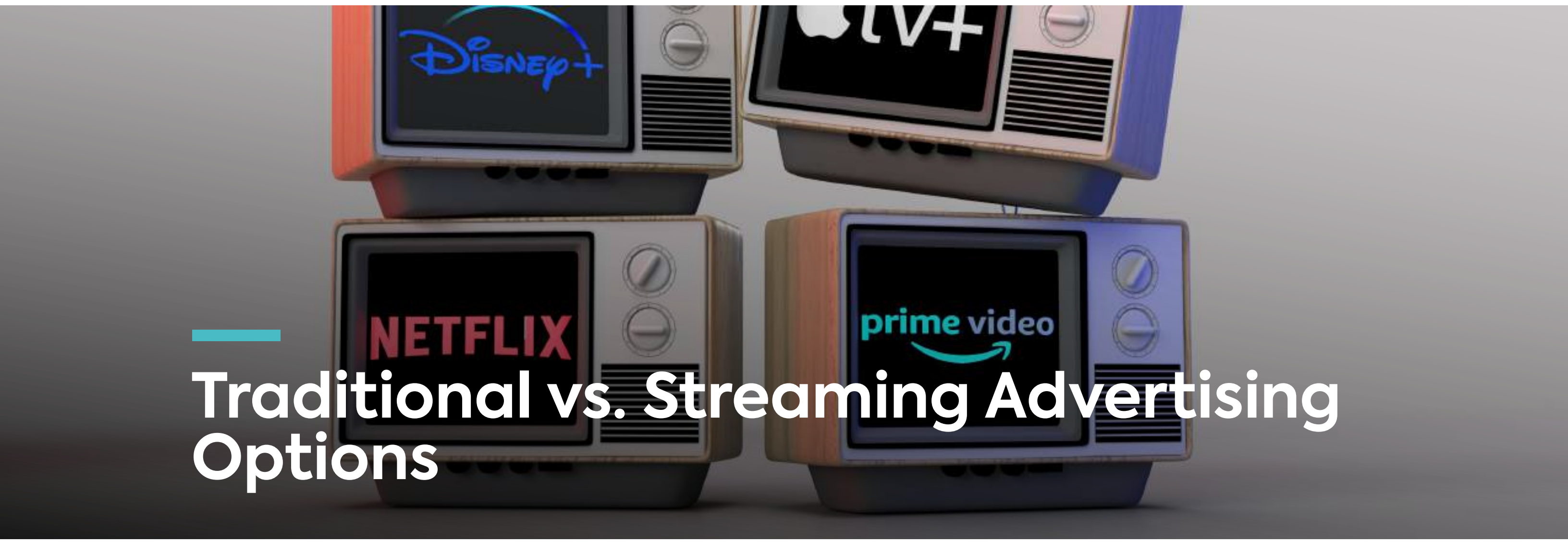
A **"cookie"** is a small data file that identifies and retains information about a user (e.g., login, shopping cart), tracks their behavior, and personalizes the session (e.g., advertising).



Fingerprinting is when information such as operating system, installed fonts, screen size and resolution, etc., is used to identify a user and create a digital footprint for them.

Fortunately, apps already rely on first-party behavioral data. Most people stream video from apps rather than a web browser, and with third-party cookies phasing out of browsers, this could mean apps are more valuable to advertisers anyway, as this is where most viewers already are.

Contextual targeting, which is data-intensive but less personal, will become more important. Contextual advertising uses artificial intelligence (AI) to analyze the content itself as well as the context within that content (i.e., the content topic and environment surrounding it) to align ads with user interests. IBM offers the Watson Advertising Accelerator for display, video, and OTT, for instance. Its AI analyzes real-time data to predict the best ad campaigns for each user or household. This approach also helps with transparency and privacy as groups are targeted rather than individuals.



Traditional vs. Streaming Advertising Options

Advertisers weigh the pros and cons of various video entertainment options available to them.

- While broadcast and pay-TV viewing is in decline, more than 44M households continue to subscribe to traditional pay-TV, and it remains a fantastic mechanism to reach mass audiences at scale.
- FAST and AVOD services are growing, but advertisers are hesitant to shift the majority of their budget to FAST or AVOD because of the quality of content on these services compared to what is shown during prime time on cable. This is reflected in FAST/AVOD services typically charging lower CPMs (cost per mille, or thousand impressions).
- SVODs that offer advertising tiers (now termed SAVODs), such as Netflix, Disney, and Peacock, are charging high CPMs due to their high-quality content and ability to offer prestige brands an outlet for conversation-shaping creative. But ad tiers on these services are relatively new, and Netflix, for instance, dropped its CPM after failing to reach promised audience volumes.

  In May 2023, Netflix revealed it has 5M monthly active users globally, which is about 2% of its global subscriber base. That 5M user base does not indicate active viewing of any particular program, but its total universe of potential ad viewers. An ad placed on a local broadcast of the evening news may easily reach a larger audience than any particular Netflix show's ad-based viewers.

Evaluating Advertising Media: Traditional vs. Streaming Options

	Broadcast TV	Cable/Satellite	Streaming TV/vMVPDs	SAVODs/SVODs w/Ads	FAST/AVOD
Reach #M US HHs	60M+	44M+	28M+	100M+	43M+
Cost (CPM)	$20-$36	$12-$19	YouTube TV: $10-$20	Netflix: $55 Disney: $50 Peacock: $30-$40	Hulu: $15-$40 Roku Channel: $23 CTV Channel: $10-$15
Advantages	Mass reach Credibility Premium content	Cost Standard targetability Premium content	Cost High targetability Premium content Young viewers	Premium content Prestige High targetability	Cost High targetability Reach
Disadvantages	Lack of targetability Declining usage Lack of data Older viewers Cost	Declining usage Limited data Production costs Advanced buying	Limited reach Ad clutter Ad skipping Limited inventory	High cost Limited volume for specific services	Lower tier content Ad clutter Limited data access Limited control

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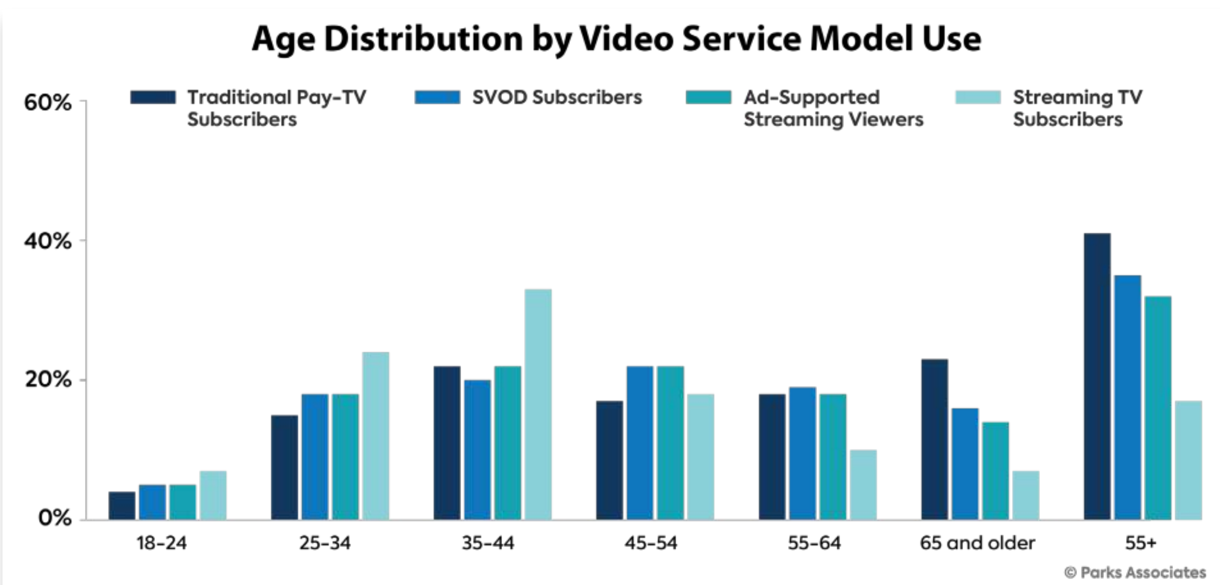
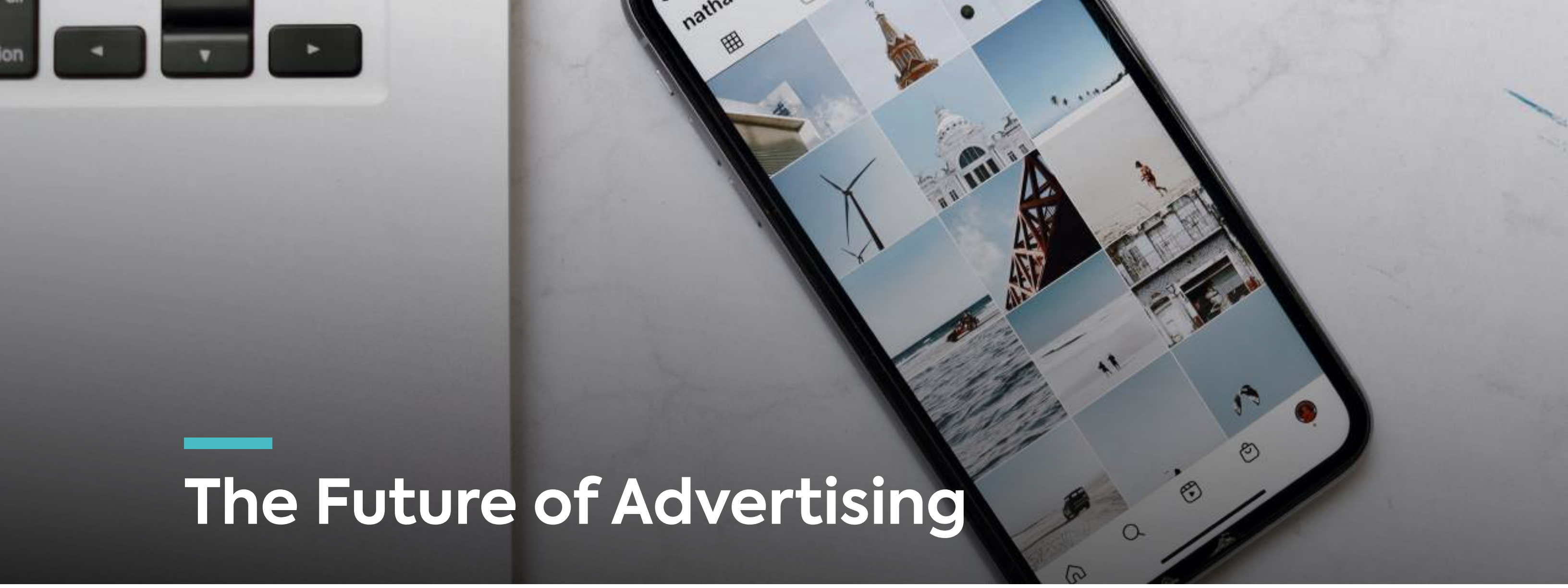
Market fragmentation and high churn in and out of services mean advertisers need to find more, smaller pockets of their target demographics. Shifting viewing habits also mean that advertisers' target demographics are on the move as well. As streaming services are now adopted by the mass market, they are more representative of the natural distribution of the overall US population. Traditional TV services are now skewed much older, while streaming TV services offer some of the youngest demographics.

64% of vMVPD subscribers are under age 45 compared with just 23% of SVOD OTT subscribers.





The Future of Advertising

Today's advertising market, particularly within video entertainment, is disjointed and hard to measure. The future of advertising is better coordinated, transparent, targeted, and engaged.

Better Coordinated

The success of ad-based streaming is not yet proven… but there is promise. Viewers are becoming more tolerant of advertisements because the associated product or service is then available at a reduced cost, or even free. But advertising on streaming is complex. Fragmentation of services, platforms, reporting procedures, and format requirements limit advertiser confidence in the process, and thus also spend. Crackle Connex offers one strategy for overcoming fragmentation – working with partners to coordinate ad buying across services.

Amazon provides another example of working with a vertically integrated platform to offer better coordinated action. In addition to its spot as the top online retailer and a leader in customer experience, Amazon also has a digital advertising service, one of the most popular SVOD services, Amazon Prime Video, and a recently launched FAST service, Freevee. Amazon is uniquely primed to converge these various channels and create a unique synergy that could become an industry standard. Using first-party data, contextual-based solutions, and consistent measurement across its own platforms, it could improve the user experience and limit wasted ad spend by reducing repeat ad impressions across the Amazon ecosystem. It's also a profitable play. Amazon's advertising revenue was up 21% YoY in Q1 2023, stronger growth than AWS or online sales revenue.

More Transparent

Transparency in advertising has two meanings: clear policies and controls to protect consumers' personal data, and better information for advertisers on exactly where their ad spend is going.

Responsible use of data is required for any brand to earn and maintain the trust of its customers. Consumers – led by European policies and consumer sentiments – are becoming better informed about their rights and will actively look for companies that give them control, offer active solutions to maintain privacy, and are transparent about how data is used. Apple is leading the way in strategically aiming for a position of trust with the consumer.

Advertisers require detailed data on how and where their spend is going. Initiatives like Ad-ID, C2PA, and IRIS_ID are creating a foundation for a new generation of advertising experiences that enhance inventory management, counter fraudulent ads, and produce the contextual information for content streamed with ad placements.

More Engaged

Television ads have long been the best way to advertise to a mass audience, but personalization tools mean that mass appeal is no longer necessary. Personalized advertisements can engage users on their very specific interests, and even allow them to save ads they like for later. Features such as reminder ads on Instagram allow users to set alerts to increase awareness and attendance of events. By opting in to receive reminders, users are going beyond awareness of the event and taking steps to follow through on a behavior intention.

Interactive advertising and video content is commonplace online, as viewers of services like YouTube are accustomed to commenting, liking, and sharing content, and viewers of Twitch are accustomed to live chats and polling. CTV must evolve to allow more interactive streaming and advertising experiences as younger consumers, who are mobile-first, bring their lean-in preferences to TV viewing. New solutions are bridging the interactivity gap between OTT and mobile:

FADE.

Fade Technology Solutions offers an advertising tool to publishers and a discovery tool for consumers with interactive shoppable video and advertisements; viewers can watch content without interruption but are also able to explore where products are purchasable.

StreamLayer

StreamLayer is an OTT platform for both mobile and CTV devices where viewers can bet on live games, view player statistics, and participate in polls, trivia, watch parties, and chats without leaving the game. StreamLayer also offers an interactive and adaptive advertising platform where brands can integrate into games at opportune moments and viewers can purchase without taking them away from the game.

Better Targeted

Advancements in aggregation, anonymization, and on-device data capture mean that individual-level data that infringes upon user privacy is not always required. Contextual targeting is a promising solution to privacy concerns and measurement standardization while still using behavioral insights and being more cost-efficient. Advertisers can now also go beyond a select set of demographics by instead leveraging actual data from the CTV device to deliver more relevant advertisements and recommendations to groups with similar interests while maintaining anonymity. Amazon has released data showing that behavioral audiences perform better than demographic audiences when an ad campaign is relevant to the behavioral attributes, or when behavioral data is used to exclude audiences that do not align with the product or messaging.[†]

But connected televisions must balance data collection with integrity. Many consumers are still unaware that such data is collected from their device. Ideally, permission should be given by the user in a nonobligatory way, and if that permission is granted, the data collected must be protected. This all points to a future where privacy and security do not necessarily prevent the monetization of advertising. It just requires a shift in the process.

Ad Revenue Generating Next Stage of Streaming Growth

Media and entertainment companies seek a path to profitability and are looking to ad-supported streaming to generate more revenue. At the same time, brands must prioritize their ad spends on platforms that are trusted, efficient, effective, and measurable. With social and other digital forms of advertising, brands have more options than ever to reach their desired targets, and video services must evolve to capture more ad spend. The next generation of TV and CTV advertising should not replicate traditional linear, pay-TV ad formats and models but offer interactive, actionable, secure, and enjoyable experiences that engage video viewers and attract ad dollars.

[†] Jessie Liu, Sr. Analytics and Media Manager, Amazon Ads, "How behavioral and demographic audiences perform on Amazon." https:/advertising.amazon.com/library/research/behavioral-and-demographic-audiences

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The company's expertise includes new media, digital entertainment and gaming, home networks, internet and television services, digital health, mobile applications and services, consumer apps, advanced advertising, consumer electronics, energy management, and home control systems and security.

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Sarah joined Parks Associates as a Research Analyst on the Entertainment side and covers topics such as OTT and consumer electronics.

Sarah earned her PhD in Experimental Psychology from The University of Texas at Arlington. She also earned an MS in General Experimental Psychology from Murray State University and a BS in Psychology from Xavier University.

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