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Netflix gets cold feet around its Microsoft partnership

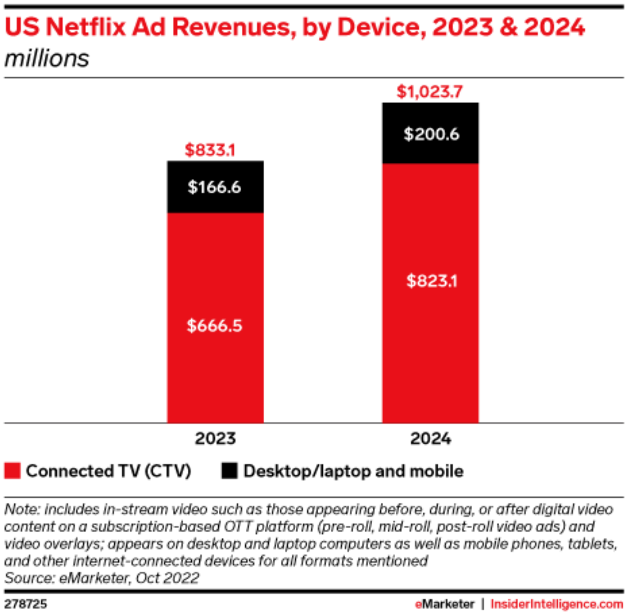
Article

The news: It's been less than six months since **Netflix** announced its much-discussed ad-supported tier, but the company is already mulling different directions for its advertising business.

According to Digiday, Netflix is looking into building or buying its own advertising technology after its two-year contract with ad tech partner **Microsoft** ends in 2024.

Rough beginnings: The historically ad-averse Netflix spun up an ad-supported tier in an incredibly short amount of time last year to appease investors upset about its first-ever subscriber loss. While the fast turnaround was impressive, a rushed launch led to some early bumps.

- With a self-set deadline of less than a year and **Disney** launching a similar tier, Netflix's lack of ad tech experience and research meant the company had to seek out a partner rather than build out the technology itself, hence its partnership with Microsoft.
- Netflix significantly under-delivered on its first viewership guarantees to advertisers and saw poor adoption of the ad-supported tier in its first quarter. The slower-than-expected start seems to have triggered some long-term doubts.
- During the company's January earnings call, Co-CEO Ted Sarandos highlighted growing pains with the ad-supported tier and said there are significant delivery and measurement improvements to be made. With its advertising inexperience laid bare, the company is reportedly working with consultants to receive advice on how delivery and measurement should be handled.
- The swing and miss with early advertisers looked especially concerning given that Netflix was reportedly charging record-high CPMs. Initial reports put CPMs at $65, but Netflix quickly denied that figure before the tier's launch.



Working from behind: Netflix and Microsoft's partnership was a perfect match, and Netflix has made it clear that advertising is a pillar of the company's future. But if sudden events hadn't sent Netflix down the advertising path, it would have been ideal for the company to develop its own ad stack.

- Though it would have taken long and been costly, developing an ad-supported tier would mean keeping money circulating in-house rather than negotiating a deal with an outside technology company like Microsoft.
- Word that Netflix is already questioning its advertising decisions doesn't help the common criticism that the company is too quick to make snap decisions, be it canceling popular shows or abandoning initiatives shortly after launch.
- It also threatens to damage the company's relationship with Microsoft, which may not be eager to renew a deal with a nervous partner, leaving Netflix out in the cold if it can't develop its own ad tech in time.

Our take: If Netflix really does want to tough it out in the advertising world on its own, it has to act fast, either by beginning development on ad tech immediately or by looking to acquire an ad tech company it can build off of, as Microsoft did with **Xandr**—but a big acquisition may be unlikely in today's high-interest environment.

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