

Why Netflix Basic With Ads will win advertisers

Article

Despite the Basic With Ads subscription tier being released just two weeks ago, we're forecasting Netflix will see US ad revenues of \$830 million in 2023, growing to \$1.02 billion in 2024. It's an impressive acceleration in ad revenues, but it puts the company behind a few streaming rivals.

The competition: According to our forecast, Disney+, which is set to launch its ad-supported tier on December 8, will have slightly higher US revenues next year at \$1.02 billion, growing to \$1.19 billion in 2024. The Walt Disney Co. already had an ad infrastructure through Hulu and ESPN+, while Netflix had to build one from scratch.

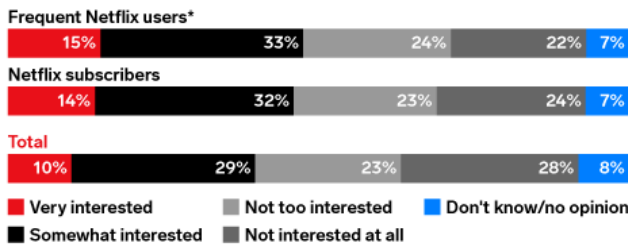
Hulu will see \$4.25 billion in US ad revenues in 2023, further evidence of the ad revenue opportunity for Netflix if the company can capitalize on it.

Netflix is still in flux: The platform needs to sell brands on advertising without detracting too much from its subscription revenues.

- Netflix’s penetration, which will reach 50.7% of the US population in 2023, is much higher than Hulu’s 38.5%. That doesn’t necessarily mean more ad dollars, since almost all of Netflix’s subscribers are currently not seeing ads.
- Almost half of frequent Netflix users are interested in an ad-supported tier, according to a May Morning Consult survey.
- Netflix has set up infrastructure to capitalize on interested viewers. Ahead of the launch, it partnered with **DoubleVerify**, **Integral Ad Science**, and **Microsoft** to build out its data measurement and ad service capacity, and **Nielsen’s Digital Ad Ratings** will be available to Netflix’s advertisers next year.

How Interested Are US Adults in an Ad-Supported Netflix Tier?

% of respondents, by Netflix usage, May 2022



Note: ages 18+; *subscribers who said they stream content on the service at least once per week

Source: Morning Consult as cited in company blog post, June 6, 2022

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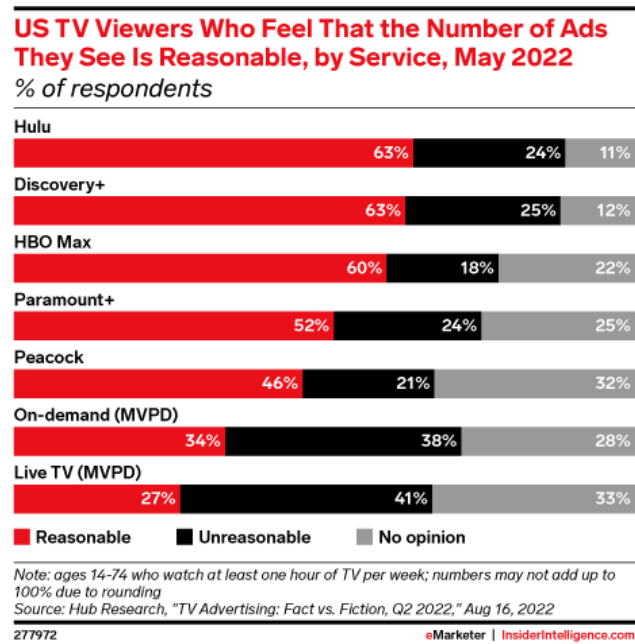
Basic with confidence: Netflix knows advertiser interest is high, so the platform is trying to make advertising competitive on its service.

- The platform is **charging** \$65 for each 1,000 users reached, according to The Wall Street Journal, though our analyst Jeremy Goldman noted “companies often float higher figures yet end up agreeing to lower figures.”
- It’s also limiting the number of ads a single advertiser can purchase, which will increase availability and allow more advertisers to dip their toes in Netflix’s pool from the jump.

What will work for advertisers? While ad effectiveness can't yet be measured, there's no reason to think an ad platform that is available to 50% of the US—and could attract more potential subscribers—will fail. Still, Netflix is threading the line between driving revenues and driving away viewers.

- Ad breaks are 4 to 5 minutes per hour of content, with ads running 15 to 30 seconds.
- That's good news for **viewers**, who are more likely to consider ads unreasonable as they get longer, according to Hub Research.

Consumers think higher of the leading subscription service **ad loads** than of on-demand or live TV. And in some ways, streamers like Hulu and Peacock have already primed Netflix viewers for seeing ads in streaming.



The other side: Not everything about Netflix Basic With Ads is rosy. The new service doesn't offer all TV shows and movies. And it doesn't work well with **Chromecast**. On the other hand, kids' profiles are ad-free, which will certainly appeal to cost-conscious but ad-averse parents.

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