

Everything you need to know about Netflix and Microsoft's ad partnership

Article

The news: After months of speculation, **Netflix** announced that it has chosen **Microsoft** as its technology and sales partner for the streaming service's upcoming ad-supported subscription

tier.

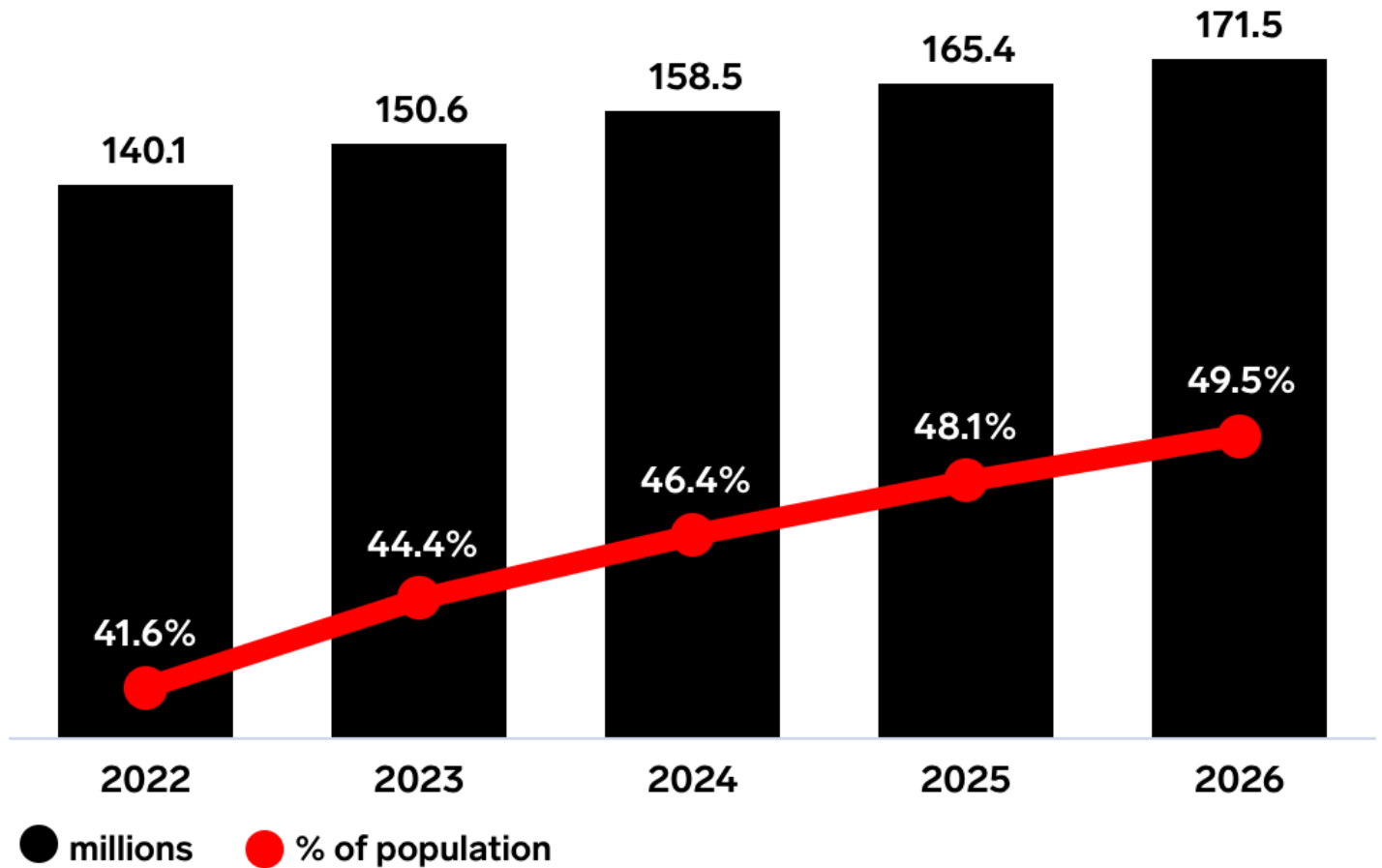
- The news is the second major streaming advertising announcement this week, coming just one day after **Disney** [announced a partnership](#) with **The Trade Desk** to build an ad platform for its various video services.

What this means: Netflix's advertising initiative started off on the back foot, but partnering with an established firm like Microsoft will help ease concerns about the effectiveness of its ad offerings.

- Despite years of anticipation, Netflix's advertising announcement felt more like a rushed consolation for news that it had [lost subscribers](#) for the first time in a decade.
- While Netflix had been historically resistant to advertising, younger streaming competitors had a significant head start over the streaming pioneer, having spent months or years fleshing out ad-supported tiers and [partnering](#) with measurement firms to bolster their ad businesses.
- Netflix CEO **Reed Hastings** initially said an ad-supported tier could take "years" to implement, but the company quickly pivoted to a much more [aggressive Q4 launch target](#) after anxiety and [criticism](#) from advertisers and competitors mounted.
- All that unease made Microsoft, with its broad advertising capabilities and solid reputation, an attractive partner to help the streamer get off shaky ground.

AVOD Viewers

US, 2022-2026



Source: eMarketer, February 2022

eMarketer | InsiderIntelligence.com

Privacy is king: The ad-supported video gold rush is reaching a fever pitch at the same time that the advertising industry faces a privacy and addressability crisis. Both Disney and Netflix's announcements directly confront those needs.

- Privacy was the primary theme of Disney's announcement, which focused on the combination of Disney's privacy-oriented user data from **Clean Room** and The Trade Desk's **Unified ID 2.0** initiative to create a replacement for third-party cookies and other identifiers of old.

- Netflix and Microsoft’s announcements, though brief, both make mention of Microsoft’s “strong privacy protections for our members.”
- But while Disney is entering the ad-supported streaming race well-prepared with data from Clean Room, Netflix’s data collection and targeting capabilities are less well known.

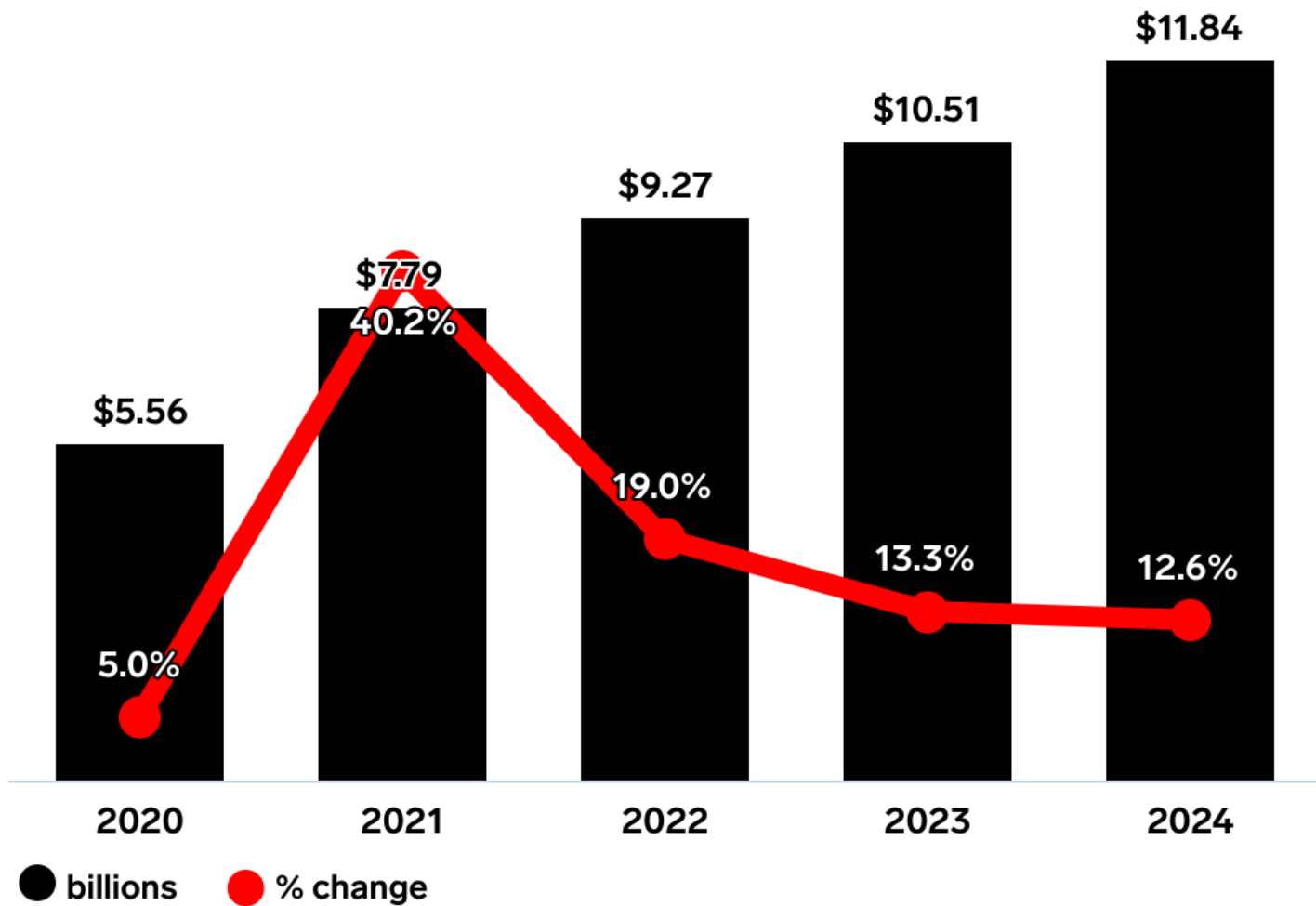
Microsoft’s adtech rise: Microsoft has invested heavily in its advertising business over the last year, and a partnership with a platform as prominent as Netflix could help it eat up a larger share of the digital ad market.

- In December 2021, Microsoft acquired programmatic advertising company Xandr from AT&T in the hopes of creating a post-cookie ad marketplace that could address the conflicting needs of privacy and targetability.
- The company’s Q1 earnings revealed that search and news ad revenues grew **23%** to **\$544 million**. Ads have started appearing in Windows 10 search and toolbars, and Microsoft is also looking to introduce ads to cloud gaming and free-to-play games across computers and **Xbox** consoles.
- Those gaming efforts offer another overlap with Netflix’s interests. The streaming service has been fleshing out a gaming business that’s primarily focused on mobile games, but could find a comfortable partner in Microsoft should it attempt to make the jump to other platforms.

The big takeaway: After months of criticism, Netflix’s choice in Microsoft will go a long way to steady the waters around its ad-supported subscription tier while helping Microsoft solidify its position as a major player in digital advertising.

Microsoft Ad Revenues

US, 2020-2024



Source: eMarketer, March 2022

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