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Netflix has missed initial viewership guarantees to its first-ever advertisers—in some cases by a wide margin

Article

The news: **Netflix** is failing to meet the viewership guarantees made to its initial class of advertisers for its month-old ad-supported tier, per Digiday.

- The streaming giant is allowing advertisers to get their money back for ads that haven't yet aired. According to agency executives Digiday spoke with, Netflix has occasionally fallen far from where it needed to be, delivering about 80% of the expected audience, with precise deficits varying from one advertiser to another.
- Netflix set up its ad sales on a "pay on delivery" basis, whereby advertisers would only be required to pay for the viewers they actually reached, and Netflix would release any unused advertising funds at the end of the quarter. The standard TV ad commitment, by contrast, requires TV networks to keep pledged ad revenue on the books and owe sponsors so-called "make-goods" (future ad inventory) to fulfill viewing guarantees.

A flurry of activity: Given that the company waited until the last possible moment to "resort" to an ad-supported tier, it played catch-up admirably well over the last half year. It partnered with **Microsoft** to launch the offering, brought on third-party measurement partners, and filled key ad sales leadership roles.

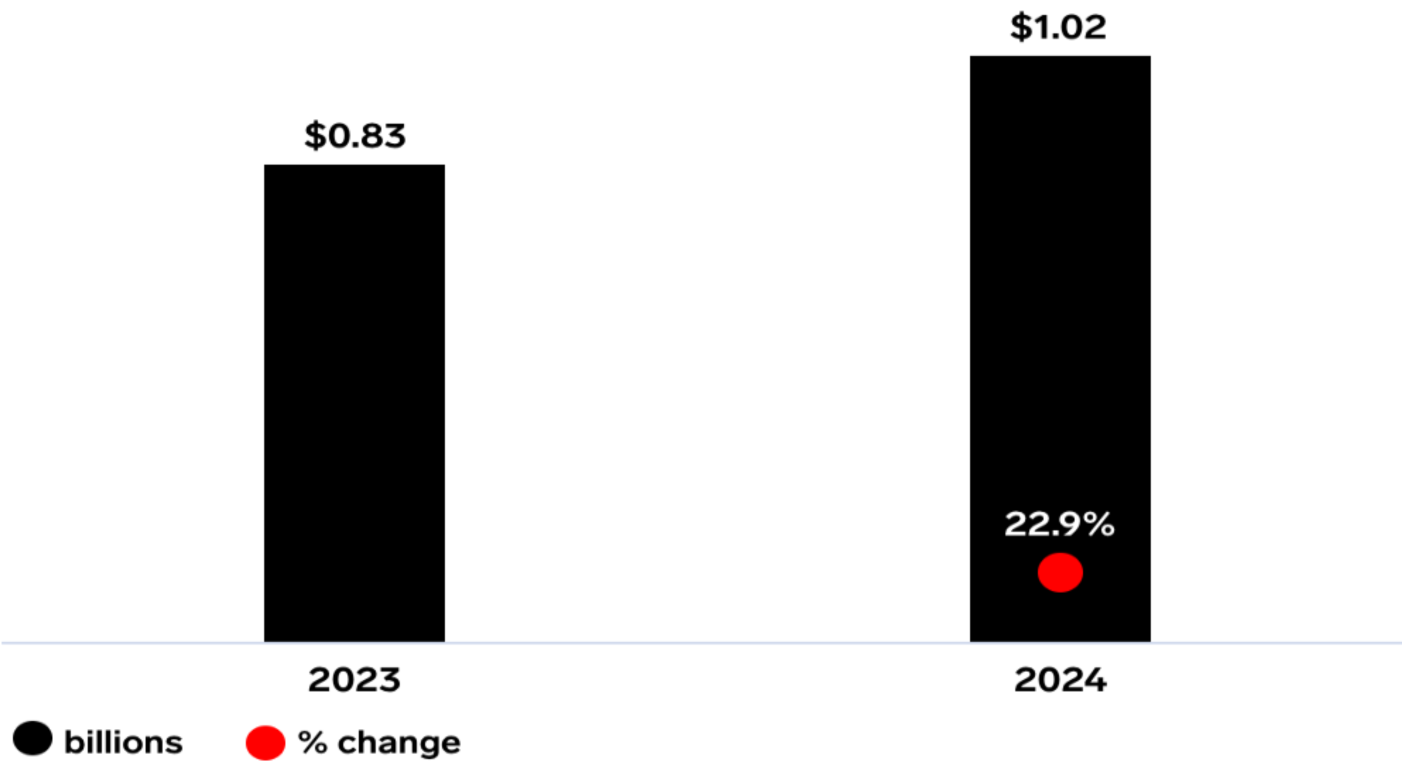
- The company is still looking for ad deals until 2023, despite its initial struggles to deliver on commitments.
- The platform remains the most expensive of the major ad-supported streaming services; even after coming down from its initial demand for $65 CPMs (cost per thousand impressions) and dropping to $55, it's higher than the $50 **Disney+** is asking for.

Our take: Netflix allowing advertisers to request their money back is a novel approach to its inability to hit guarantees coming out of the gate. It upends the traditional TV purchasing model and the "make-good" approach that has been used for years.

- At the same time, it's unfortunate that the streamer is significantly off with some campaigns. It's a bad look for a company that has ambitions to create a multibillion-dollar ad business over the next few years to miss targets widely at launch.

Netflix Ad Revenues

US, 2023-2024



Note: includes instream video such as those appearing before, during or after digital video content on a subscription-based OTT platform (pre-roll, mid-roll, post-roll video ads) and video overlays; appears on appears on desktop, and laptop computers as well as mobile phones tablets, and other internet-connected devices for all formats mentioned
Source: eMarketer, October 2022

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