

Netflix is only the beginning for Microsoft's advertising blitz

Article

The news: Microsoft's ad business is enjoying newfound attention after last week's announcement that [Netflix chose the tech giant as its partner](#) for its upcoming ad-supported subscription tier.

Let's try that again: Microsoft has a history with digital advertising that stems back to its 2007 acquisition of digital ad firm aQuantive Inc., but its early attempts at ad dominance

paled in comparison to its competitors.

- AQuantive ultimately turned out to be a failed endeavor for Microsoft, which turned its attention elsewhere and left a gap for competitors to swoop in and establish a decades-long hold on the industry.
- Today, Microsoft is the fourth largest US ad seller and will generate **\$9.27 billion** in digital ad revenue this year. But that's a distant, distant fourth behind **Amazon** (\$31.43 billion), **Meta** (\$55.54 billion), and **Google** (\$70.15 billion).
- But in the last year, Microsoft has developed a renewed interest in the **\$602.25 billion** global digital advertising market. In January, Microsoft acquired adtech firm **Xandr** from AT&T, which became the foundation of its new advertising business and paved the way for its partnership with Netflix.
- Microsoft also has few conflicts of interest with Netflix—especially compared with **Disney's** chosen streaming ad partner **The Trade Desk**, which works with video competitors like **Fox**, Major League Baseball, and even competing advertising companies like **Nielsen**.

Digital Ad Revenues, by Company

US, 2022, billions

Amazon



Google



LinkedIn**



Meta*



Microsoft



Source: eMarketer, March 2022

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Filling the gaps: With both an established history in tech and advertising acquisitions under its belt, Microsoft has the foundations to build a strong ad business. What it lacked until now was an in-demand, scalable inventory of content to apply it to.

- Before the Netflix partnership, one focal point of Microsoft's advertising efforts was search. In Q1 2022, its search ad revenues (where it again lags far behind Google and Amazon) grew 23% to **\$544 million**. We expect that the search advertising market will continue to grow healthily throughout the year, even as the industry faces a period of anxiety.

- Video games were another focal point. Microsoft plans to launch an [ad platform for free-to-play games](#) on Xbox consoles and PCs, and could also introduce ads to its cloud gaming service, which has been used by **10 million** consumers.
- Ads could also come to games subscription service **Game Pass**, which has **25 million subscribers** as of January 2022 and will likely see its catalog bolstered by exclusive, day-one releases from Microsoft's new major subsidiaries like [Activision Blizzard](#) and **ZeniMax**.

But games take much longer in the oven than most TV shows do, and Game Pass hasn't seen a major, "Triple-A" release in quite some time. Netflix, meanwhile, remains the most widely used subscription-based streaming service and is planning to launch its ad platform by [the end of the year](#).

The big takeaway: Committed to fighting for a larger share of the ever-growing digital advertising market, Microsoft with its Netflix partnership gains a testing ground and broad base of content to apply its technology to.

- Microsoft can rely on Netflix's user experience expertise to focus on further developing its ad stack, and then apply those UX lessons to its in-game advertising efforts to help smooth things over with [anxious consumers](#).

Share of US Teens/Adults Who Play Video Games, by Generation, March 2022

% of respondents in each group

Gen Z	96%
Millennials	96%
Gen X	89%
Baby boomers and seniors	57%

Note: ages 14+; Gen Z born 1997-2007, millennials born 1983-1996, Gen X born 1966-1982, baby boomers born 1947-1965, seniors born 1946 and earlier; respondents were asked to choose their 3 most frequent activities

Source: Deloitte, "Digital media trends survey, 16th edition," March 28, 2022

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