

10 Ways Roku Is Growing Its Ad Business

ARTICLE | **JANUARY 10, 2019**

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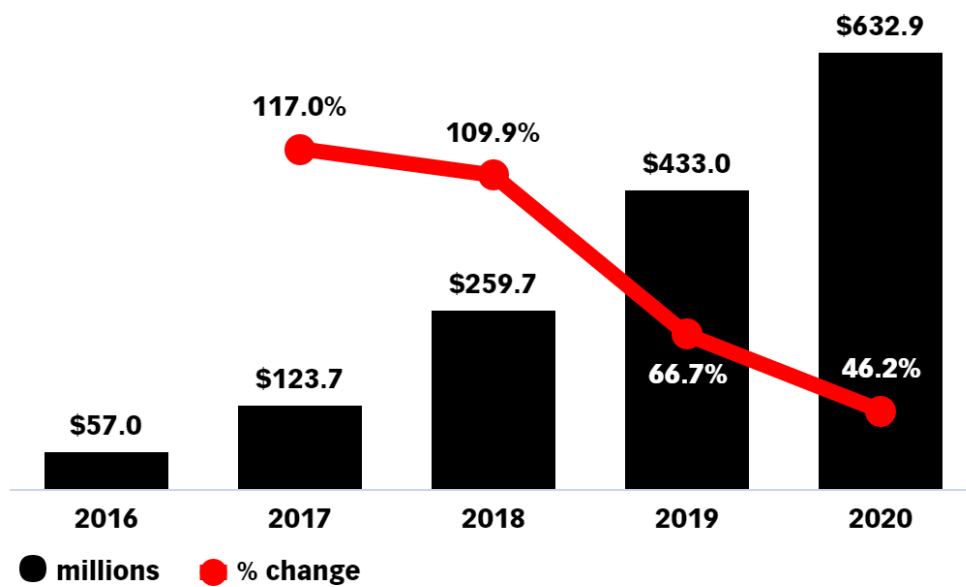
Roku, the David to the connected-TV-device Goliaths (Apple, Amazon and Google), is differentiating itself by expanding its advertising business.

The company recently announced that its media and advertising revenue **surpassed its revenue from selling connected-TV hardware**, and claimed it had 27 million active accounts in Q4 2018, a 40% year-over-year increase. Roku's advertising growth is likely far from finished, as adoption of over-the-top (OTT) video services increases.

We expect the number of OTT video viewers in the US to increase to 209.3 million in 2020 from 199.9 million in 2018. But ad revenue will far outpace viewer growth: We expect Roku's US ad revenue to more than double to \$632.9 million in 2020.

Roku Ad Revenues

US, 2016-2020



Source: eMarketer, September 2018

www.eMarketer.com

Roku began expanding ad sales in 2015, and now it has dozens of people selling advertising, according to Scott Rosenberg, Roku's senior vice president and general manager of platform.

"We live somewhere in between digital advertising and ad budgets and TV ad budgets," Rosenberg said. "Our deal sizes of dollar amounts per advertiser are much bigger than the traditional digital-sales team but, at the same time, we're still early in the business, and so we're not yet running TV-sized budgets."

As its ad business expanded, it inked deals with **measurement firms like Nielsen** and **TV manufacturers like TCL**. While building some of its own ad tech—including its data-management platform (DMP) and backend technology—Roku still relies on vendors for ad serving and automated ad buying.

"If we can build it efficiently and compete as a best-in-class provider of it, we should build it," Rosenberg said. "But if it's a commodity and we

can source it cheaply or it's a distraction, we could source it for a while. And so that produces something of a mix-and-match model.”

Here are ten ways Roku is expanding its advertising and media business:

1. Selling publishers’ inventory: When people watch ad-supported publishers on Roku, the platform gets access to sell some of the publisher’s inventory in exchange for the extended audience reach it provides. Roku has found this to be a more reliable strategy than asking publishers for a cut every time an ad runs on the platform.

“Rather than ask partners for a share of their ad sales, which is very hard to police and enforce, what we'll say is, ‘We just want access to a piece of the inventory that we can sell,’” Rosenberg said. “That was a critical fork in the road because it gave us the agency to go sell that product with all the capability that we thought was possible.”

2. Subscriptions: Roku gets paid when it drives subscriptions to video services. For example, if a viewer subscribes to a paid service like Netflix via Roku, then Roku gets a piece of that revenue.

In January, Roku announced that it would **allow users to subscribe to paid channels** such as Showtime and Starz from within Roku’s own channel and users could pay for all of the services through one bill instead of individual bills for each service. This move makes The Roku Channel **more similar to OTT titan Amazon Prime Video**, which allows users to pay for subscriptions to a plethora of channels.

3. Giving publishers audience-data access: In June 2018, Roku **launched a marketplace** that lets publishers use Roku’s first-party audience data. The idea is that allowing publishers to match their own data to Roku’s will help publishers sell their inventory on the platform.

4. Display ads: When a user starts up their Roku device, display ads and themed overlays show up on the homepage.

5. Channel recommendations: Another way Roku makes money is by suggesting which channels users should download when setting up their device. The recommended publisher channels are a mix of editorial choices and paid placements, Rosenberg said.

6. Selling ads for its own channel: In September 2017, Roku launched its own ad-supported channel, The Roku Channel, and maintains full control of its inventory.

7. Sponsored shows: Roku has **brands sponsor some of the shows** that it offers in its own channel.

“For example, we might do a fall premiere overview or special section in the Roku channel, and we’ll bring a brand or two in to sponsor that,” Rosenberg said.

8. Email marketing: Like its channel recommendations, Roku uses a mixture of editorial and paid emails (which users can opt out of) to suggest content.

9. Remote buttons: Publishers pay Roku to place dedicated buttons on its remotes, which send viewers directly to channels such as Hulu or HBO Now, according to Rosenberg.

10. Deals with TV manufacturers: TV makers like TCL, Sharp and Hitachi use Roku’s software for their connected-TV products. The value lies in user acquisitions; the deals are more about Roku gaining adoption and getting people into the habit of using its platform than about the money Roku makes from the partnerships, according to Rosenberg.

“These are low- or no-economic deals,” Rosenberg said. “So basically, for a modest upfront licensing fee from [TV manufacturers], we give them the OS, and that’s valuable for them because they don’t have to build or source their own.”