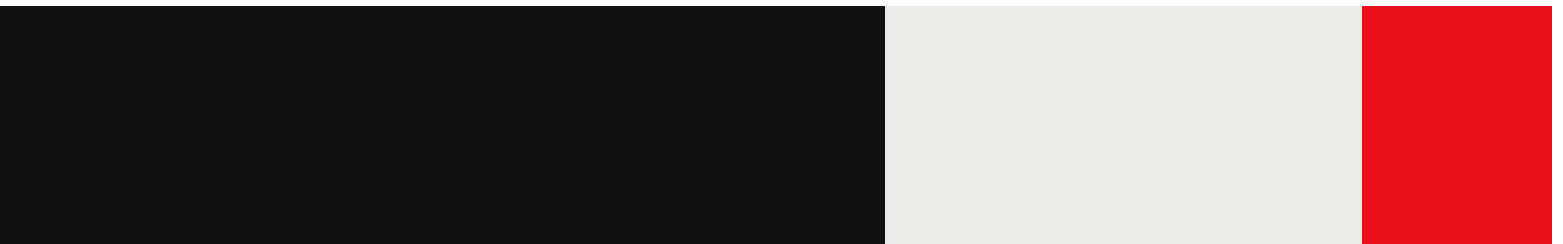


Netflix's ad-supported tier reaches 1 million monthly active users

Article



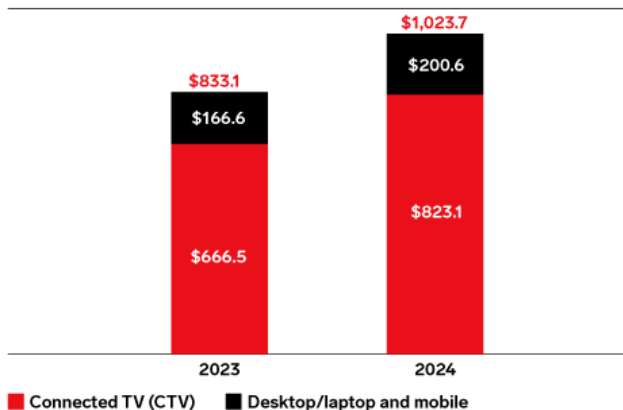
The news: Netflix's ad-supported subscription tier has reached **1 million monthly active video-on-demand users** as of January, according to "month-old" data reviewed by Bloomberg. That's active users and *not* subscribers, meaning the figure includes viewers on the same account.

- After a rough first quarter with low ad-supported video-on-demand (AVOD) adoption that saw Netflix **fail to meet expectations** with its first advertisers, Bloomberg reports that Netflix is now properly delivering on its viewership estimates.

The slow spin-up: Netflix's ad-supported tier was launched in a hurry last year to appease investors after more than a decade of arguing against introducing advertising to the platform. But while the warming period for the new tier was slow, Netflix seemed unbothered by its initial lackluster performance.

- That an ad-supported tier exists at all on Netflix is remarkable. The company set out on creating the tier and building out an advertising technology system from zero in less than a year, partnering with **Microsoft** to get it done in a race with a similar launch from **Disney+**.
- Though AVOD viewership was on the rise throughout 2022, many worried that the new plan would cost Netflix revenues in the long run from users who switch over from a pricier tier to the new plan. But users who were accustomed to an ad-free experience expressed little interest.
- Instead, AVOD has been a source of new user growth for Netflix. The tier accounted for 19% of new signups in January, according to analytics firm Antenna. The near-20% figure and 1 million viewer landmark shows that while it's not a breakout success, the tier is contributing to incremental growth for Netflix.

US Netflix Ad Revenues, by Device, 2023 & 2024
millions



Note: Includes in-stream 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 desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices for all formats mentioned
Source: eMarketer, Oct 2022

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eMarketer | InsiderIntelligence.com

Building confidence: With viewership expectations being met and the ball beginning to roll, Netflix is looking to the future of its advertising business and whether it should go it alone or stick it out with Microsoft.

- To launch an ad-supported tier quickly with no experience running an ad platform itself, Netflix was forced to seek out a prominent partner to get things going.
- But now, perhaps fueled by greater confidence in its ad business, Netflix is reportedly consulting with ad tech experts about the cost of building or buying its own ad platform, which could mean severing its partnership with Microsoft when that contract ends in 2024.
- Still, a potential recession and higher interest rates make hiring engineers to develop an ad platform costlier than it would have been during Netflix's decade of ad-abstinence, and acquisitions are made difficult by the same circumstances. Besides, Netflix already has several costly, long-runway acquisitions in its portfolio thanks to its developing video game business.

Our take: Netflix has shaken off the rough launch of its new subscription tier, but it's still not the revenue generator the company is hoping for. If AVOD does become a hefty source of revenues and subscriptions for Netflix, it will take years for the results to materialize. In the meantime, its boost of confidence after a shaky first go is giving glimpses into how the company is planning for the longer term.