

# Ad-funded video's powerful return

Why ad-funded models are back, and how to make the most of them

 accenture



# Executive summary

As streaming services have gone mainstream over the last few years, consumers have no shortage of options for their entertainment.

But as our **Streaming's Next Act** report<sup>1</sup> highlighted, an ever-expanding menu does not necessarily mean ever-happier customers. Instead, in an ironic return to the frustration that prompted cord-cutting and the initial adoption of streaming, our report identified consumers' growing dissatisfaction with "Inefficient Bundles." In fact, with the rapid proliferation of platforms to choose from, some consumers are starting to question just how many services they are willing to pay for. Our research revealed that 63% of consumers agree that it's too expensive to pay for all the entertainment subscriptions they want.

As consumers begin to rationalize their spending on streaming subscriptions, there will of course be winners and losers. One of those winners could well be ad-funded video.

This fast-growing category includes both on-demand (AVOD) such as Fox's Tubi and Disney's Hulu in the United States and All4 and ITV Hub across Europe, as well as the linear, free, ad-supported television (FAST) services such as Viacom's Pluto TV and Xumo in the United States, and Joyn and Discovery in Europe. In the wake of the pandemic and in the face of rising inflation, consumer subscription fatigue

may make ad-funded models more attractive as a means to counter Subscription Video-On-Demand's (SVOD) slowing subscriber growth. The growth of ad-funded streaming offers opportunities to all players in the media value chain. That's the good news.

The big challenge? Getting AVOD/FAST right is not easy. It requires high levels of engagement to secure advertising dollars and achieving that will require a range of approaches and capabilities that are distinct from those needed for successful subscription-based services.

**To explore these issues in detail, we'll answer two key questions: what are the specific challenges streaming organizations need to be aware of, and what actions can they take to make the most of this growing opportunity, and begin an evolution of consumer connection that goes beyond simply video?**

## The rise of AVOD/ FAST: show me the (ad) money!

Our analysis suggests that what was a market of just \$1 billion in 2017 will reach \$21 billion by 2025. And while it is unlikely to eclipse the SVOD market any time soon, as figure 1 shows, it is set to grow at a faster rate over the next five years.

Figure 1: AVOD vs SVOD growth 2020 to 2026

### SVOD

\$32.6 billion 2020 -  
\$54.4 billion 2026 =

+ 67%

### AVOD

\$10.7 billion 2020 -  
\$32.6 billion 2026 =

+ 205%

## Viewer numbers are rising fast too, with over a third of internet users watching AVOD services in Q3 2021, a 200% increase worldwide over Q3 2020<sup>2</sup>.

And it's attracting the attention of younger viewers, with the number of 18–24-year-olds watching AVOD services tripling between Q3 2020 and Q3 2021<sup>3</sup>. In fact, the UK's All 4, Channel 4's AVOD service, won 'Best Streaming Platform of the Year' in the 2021 Broadcast Tech Innovation Awards, beating SVOD services like Now TV and Apple TV+.

It's important to remember that there is an upper limit to the discretionary spending that consumers will devote to video services. In fact, despite rising SVOD prices, 88%<sup>4</sup> of consumers plan "no change" or a "decrease" in their entertainment spending next year. Consumers reining-in their spending provides yet another reason to believe that the savings offered by free and lower-

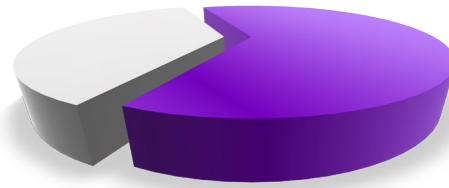
priced AVOD/FAST platforms will see them playing a much larger role in the future.

What's more, the growth of AVOD/FAST does not appear to be solely attributable to people simply looking to avoid paying for their video services. The evidence? Thirty-seven percent of AVOD viewers polled by Roku say that they "don't mind" adverts<sup>5</sup>. Similarly, 73% of consumers participating in Accenture's global survey said that they would not pay more to remove ads from their shows. No surprise: the likes of Discovery, NBCUniversal, Paramount Global and WarnerMedia (and soon Disney), have all launched ad-supported tiers. However, this rosy growth picture presents opportunities across the entire media value chain.



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## This rosy growth picture presents opportunities across the entire media value chain.

Alongside, we set out what those opportunities might look like for each player.



### Existing ad-funded streaming services

As the audiences of AVOD/FAST providers like Tubi grow, they can harness the accumulating mountain of consumer viewership data to offer more targeted ads at attractive cost per thousand (CPMs).



### SVOD

As mainstream SVOD services complete their international rollouts and global subscription growth slows, services like Netflix can build or buy a separate AVOD/FAST service or add a hybrid/ad-funded pricing option to their existing service to capture the price-sensitive market segment, and further monetize existing subscriptions.



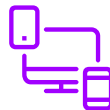
### Broadcast/ Cable networks

Large networks have a well-established muscle for ad sales, ad tech and ad targeting that gives them an advantage when establishing their own AVOD/FAST services, enabling new ad sales bundling between networks and streaming.



### Cable

Just as some multichannel video programming distributors (MVPDs) have added Netflix to their channel menus, they could also add popular FAST services, like Pluto TV, to stem the tide of cord-cutters. Beyond that, with a demonstrated ability to package channels, MVPDs are well positioned to be an aggregation layer sitting on top of multiplying streaming services.



### Connected devices

Connected devices such as Roku and LG TVs can monetize the additional traffic not only for greater device sales but also by launching ad-funded services on their platforms, such as The Roku Channel.



## AVOD/FAST challenges: new game, new rules

To succeed with AVOD and FAST means taking a new approach that's different to what works for SVOD services. What that approach looks like will vary according to where a player currently is in the media and content value chain. However, ad-funded models raise some challenges for all players.



Fundamentally, ad revenues depend on engagement. Simply put, if viewers don't watch, the money won't flow. For media companies with existing streaming services, there's the additional risk that launching an ad-funded service will eat into revenues from existing subscriptions. Of course, the ideal is that a new service would attract new viewers, but a new AVOD/FAST – either as a standalone service or as a new pricing option on existing services – could see consumers vote with their wallets and join the lower-cost option. In much the same way, offering a free alternative may erode the brand value of a premium SVOD service. While Disney executives have shared that their multi-service bundle has been a strong driver of sign-ups

as well as ongoing retention, creating bundles of services can also add to brand confusion and make it harder to segment consumers.

For SVOD operators launching AVOD/FAST services, attracting and managing advertisers requires new capabilities. These range from ad inventory optimization, pricing and order management to advertising sales teams and operations execution through ad tech, analytics and effective targeting.

Revenue models and team structures will also have to change. For businesses with a legacy in broadcasting, these will be familiar. For others, they present a steep learning curve. Advertisers need to know who's watching what – and when they're watching it – to see how effective their

campaigns are. The demise of cookies makes this more challenging for digital services. As a result, AVOD/FAST platforms will need to develop new data compliance standards and invest in audience modelling capabilities to target consumers as effectively as possible. And as M&A activity continues across the media landscape, integrating traditional sales methods with their data-driven, direct-to-consumer counterparts can be challenging.

**In the pages that follow, we introduce the three key questions that a company must consider in order to shape a successful ad-funded strategy.**

A hand is shown in the foreground, reaching out towards a digital display. The display features a grid of small, colorful lights (blue, pink, purple) that create a sense of depth and movement. The background is a blurred, colorful light trail, suggesting a fast-paced, digital environment.

# 01

**What's your role in a re-aggregated world?**





**As the rise of ad-funded video services creates another major shift in the media landscape, all players need to think about where they can most productively locate themselves in this new geography.**

## Strategic considerations

### Extend the core

AVOD/FAST can come in many flavors – a new pricing option inside of a legacy SVOD service, a completely new standalone service, and a new service offer as part of a bundled package offered at a slightly lower price. Disney has explored each approach – a hybrid/ad-funded version of Disney+, a stand-alone

Hulu AVOD option and a SVOD/AVOD bundle with Disney+, Hulu, and ESPN+ offered as a package at a discounted rate. This variety of options provides consumers choice and enables a value proposition for the widest number of audience segments. The AVOD or FAST service, when paired with an existing SVOD service, could be the “fighter brand” that drives trial of a company’s streaming services. Once consumers begin to engage, they can be cross-sold on the merits of the paid service. Bundling can enable a business to target a larger pool of customers by offering them greater variety and cost savings.

### Evolve your distribution strategy

In an increasingly crowded marketplace, there will be more avenues than ever to monetize content delivery – making discovery of a new service that much harder. To be sure, ubiquity has been the typical strategy for distribution, necessitating a raft of partner deals to help consumers discover the service. However, with most streamers pursuing the “ubiquity” route, finding a differentiated way to distribute content will require careful consideration and selection of the most relevant partners and most vital deal terms.

In **Streaming’s Next Act**, Accenture advocates an aggregator platform that provides access

to content from other networks and platforms as, for example, Amazon Prime Channels and Roku do today. Platforms should identify and partner with those most likely to emerge as aggregators, as distribution on those platforms position them for where eyeballs – and remotes – will concentrate. And while Roku, Amazon Fire Stick and Apple TV are well-known players in this space, Tizen, Sony and Google (Android TV, Chromecast) also hold very strong positions, according to Statista<sup>6</sup>.

### **Take a page from the portals**

Accenture's recent consumer survey verified that streaming audiences find value from cross-platform aggregators. However, even if the long-term expectation is for consolidation around a small handful of portals, the near-term offers a variety of ways that an AVOD/FAST service could be an aggregator. Like Amazon Prime Video's Channel service, an AVOD service could allow audiences to view their other streaming services. Perhaps the channel could showcase AVOD and FAST services only, as a strategy to be the "portal to the best in AVOD and FAST".

### **Form a posse**

Like the aggregation concept, partnerships that form multi-service bundles can attract audiences. Just as the Disney bundle (Disney+, Hulu, ESPN+) has gained hype by offering a wide variety of content categories with a discount that promotes a new value to consumers, an AVOD/FAST service should consider the positive value impact that participating in a bundle could have. The bundling world could quickly become the new version of complex-value competition, proving to be another near-term industry structure (bundles versus bundles). It might be difficult to pick a winner today, but not bundling at all might present discovery risk for a stand-alone AVOD/FAST service.

The background features a large, abstract bokeh effect with various colored circles (yellow, orange, blue, purple) and light trails. A solid purple gradient bar runs horizontally across the top and bottom of the image.

**02**

**What's your value to  
advertising agencies?**



**In the race to launch SVOD services, streaming platforms have largely ignored advertisers. Media companies have been focused on going direct to the consumer, with revenue models based on subscriptions, not ad dollars. But as our analysis shows, the growth of ad-funded video is set to outpace SVOD and will eclipse traditional linear TV. And by a significant amount.**

Analysis<sup>7</sup> suggests that revenues from linear will reach \$4.22 billion by 2023. AVOD looks set to be considerably larger, with estimates for market size ranging between \$20 to \$30 billion. So, an SVOD-only model leaves a lot of money on the table, which AVOD/FAST services can attract. To do that, platform executives need to be able to persuade advertisers of the advantages of this new opportunity for their spending.

## Strategic considerations

### Shout your value to advertisers

AVOD/FAST platforms must emphasize the growing popularity of ad-funded models, the scale and growth potential of audiences and the potential revenue to advertisers that buy space on the platform. Advertisers may not know that, according to Accenture survey data, consumers globally spend 53% of their viewing time on fully- or partially-ad-funded viewing platforms, versus only 35% for SVOD.

Digital's enhanced ability to target specific cohorts, or even individuals, offers a significant advantage over showing ads to anonymous pools of users identified through third-party cookies. AVOD/FAST platforms offer precisely that advantage. By targeting more precisely, advertisers can hold one-to-one conversations with customers, offering them an improved customer experience, while reducing wasted ad spend.

### **Turn up the volume for SMBs**

Small-to-medium sized businesses (SMBs) have embraced digital platforms like Facebook, Google and Snap to easily and cost-effectively target audiences. YouTube and Hulu, early AVOD players, offer self-service ad placement tools, simple campaign analytics and agency-like creative services to drive SMB adoption. In much the same way, an AVOD/FAST platform could unlock new affiliate revenue by enabling commerce features in advertising. Forty-three percent of consumers surveyed globally by Accenture are interested in clickable video ads.

### **Create an AVOD/FAST trading desk**

Another area is simplifying ad buying and placement across the entire growth industry of AVOD/FAST. As the death of cookies on Apple and Android inhibits the ability to personalize, walled gardens can offer scale and targeting. An AVOD/FAST ad network across services could be one such ecosystem, allowing advertisers to purchase and exchange data in a trading desk like environment. The service offering the central trading desk could establish a unique market position.



**03**

**How will you keep  
consumers engaged?**



**A successful ad-funded video service requires high levels of engagement. Platforms need to understand how to attract viewers to the platform and keep their attention, so they return again and again.**

## Strategic considerations

### Bet better on content

Spending on content by ad-funded services will also increase significantly, climbing by 144% between 2020 and 2026 to reach \$66 billion across 138 countries<sup>8</sup>. However, it's an expensive war. By adding an AVOD/FAST offering, SVOD providers may find an additional way to capture and monetize consumers, leading to additional dollars to fuel content creation.

Still, exclusive, original content is costly and risky and, no surprise, many AVOD services like Tubi have instead launched with a broad, library-based strategy which helps keep rights costs down. However, as the AVOD market heats up, especially with mega-services like Disney+ offering an ad-funded option, the need for more and exclusive content will likely require AVOD/FAST services to bet bigger.

While quantity is important to ensure consumers have enough to choose from, it is even more important to have content strategy and budget successfully aligned to the preference of your target audiences, to entice them to spend more time on the platform. However, as we explore in **Streaming's Complex Consumer**<sup>9</sup>, understanding the full range of preferences among your audiences is not easy. How they act on your platform, and

what they view, is just part of the story. Betting better on content starts by understanding what content the audience watches on other platforms, not just your own, in order to have a full view of their content preferences.

Knowing the rich and complex DNA of your audiences inform not simply investments in new content, but may allow better library monetization. Imagine a viewer who watches sci-fi on one streaming service but tends to regularly get their romantic comedy fix on another service. Instead of the first service simply recommending more sci-fi, insight into their full DNA helps that service know to also pitch rom-coms before those viewers hop to another streamer.

## Put consumers in the driver's seat

Providing “viewer control” over ad personalization should be a major vector of differentiation. Hulu already provides opportunities for a viewer to select between two different ads or even for different creative executions of the same ad. However, more is possible. For example, a more personalized ad consumption experience could allow consumers to choose when they view ads during a program. Rather than several forced 2- to 5-minute commercial breaks, consumers could choose between, for example, one 10-minute block of commercials or 10 one-minute blocks to watch whenever they choose. Additionally, enabling consumers to skip ads that are not as relevant to them could increase the value and impact of advertisements.







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## Never stop learning

Knowing more about a consumer will enable better personalization – and retention. Accenture research found that consumers expressed greater comfort sharing information about themselves with a streaming service, rather than with a cable provider, wireless provider, or a digital platform. In fact, over half (56%) of consumers would like to share a profile between services for better personalization.

Until legislation passes that allows consumers to own their streaming data, just as they keep their phone numbers as they move across wireless providers, how can an AVOD/FAST service enable profile building? They might insert gamified surveys where consumers identify films and shows from other platforms that they loved. Services could add complementary content information, like IMDb, that will inform user profiles as they click through it. A simple upload function would enable consumers to upload historical viewing behavior to rapidly “tune” their profiles.

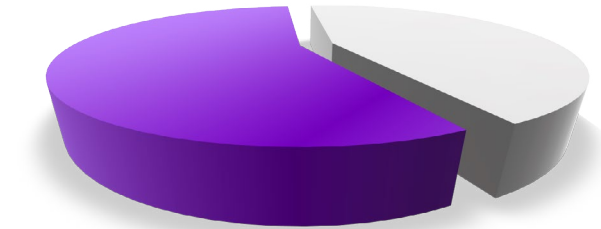
Platforms could also embrace the aspirations of web3 and support innovations and standards that allow consumers to own their full profiles, including viewing history and content preferences, and easily “plug their profile into” a service for user-controlled personalization.

## Go beyond video

For decades, media companies have sought a direct connection to consumers, and with streaming services, finally have it. As the fierce competition on content spending and reducing subscriber churn has shown, streaming will be a hard-fought business. Adding ad-funding business models is only the first innovation away from SVOD. In fact, the options beyond video are compelling, and can buttress streaming economics.

The platform can go beyond simply offering content to become a way to engage in other experiences and activities. Imagine a series of concentric circles with video in the middle with an SVOD ring and then an ad-funding video

ring next. However, let the platform be a front door for more. That might mean, for example, a next ring of other subscription and ad-funding media services like music, books, podcasts. Then a ring that includes buying content-related merchandise, sports betting, and other complementary commerce like a Domino’s app to help feed a family’s movie night.



56%

of consumers would like to share a profile between services for better personalization

The next ring considers the addition of social interaction. Ad-funded networks, like TikTok and YouTube avoid the traditional risks of content spending and instead encourage creators, who fuel audiences' engagement and the power of the platform for advertisers.

Embracing community features – such as social viewing, recommendation sharing, viewer “collections” features, show-specific

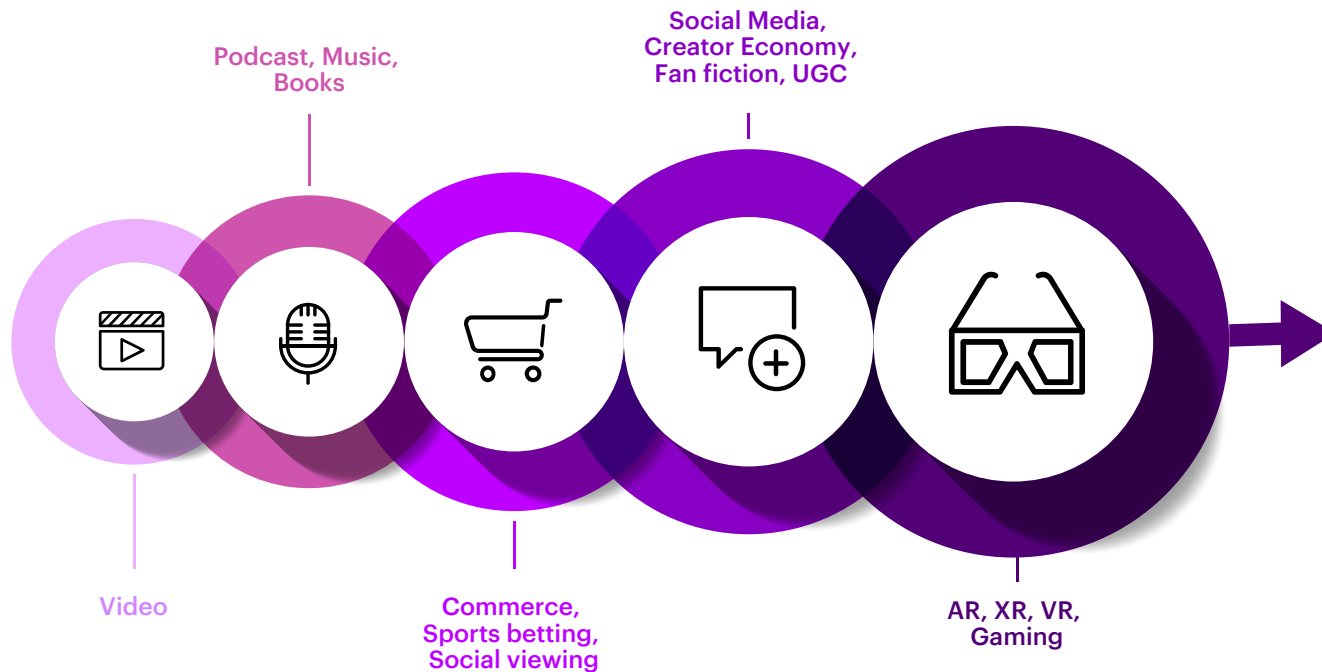
commentary boards and even “fan fiction” user-generated content areas – can help attract and retain viewers as they follow their favorite creators and favorite media franchises, and it could open up a new driver of ad sales.

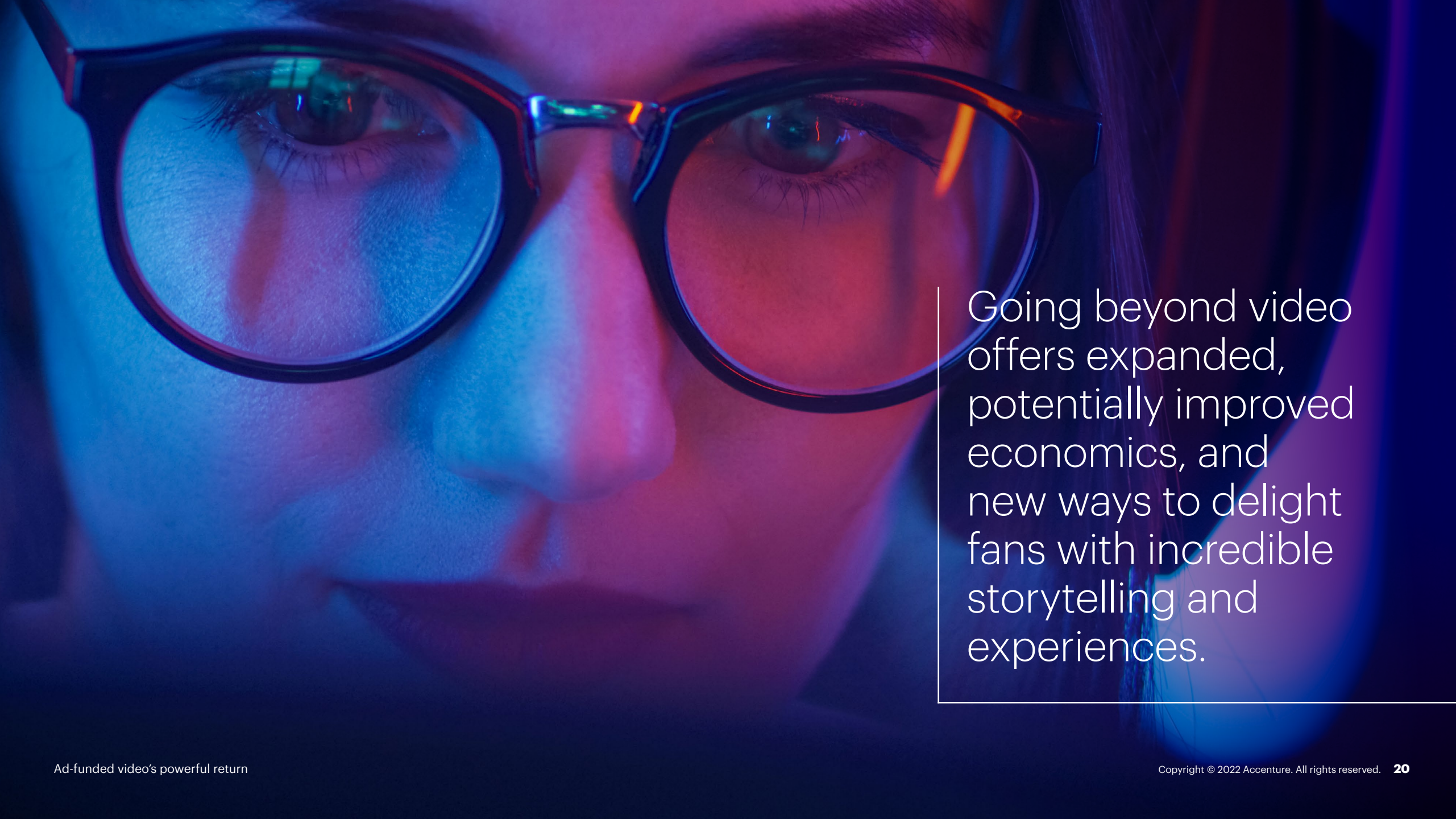
And what lies beyond the social platform ring? To be sure, the “front door” enabled by the streaming service can be a consumer's onramp

to enhanced, immersive experiences of the metaverse. Consider rich, on-the-court NBA experiences powered through a live sports streaming service, or music concerts or travel shows powered by the extended reality spaces, avatars, digital identity and digital currency behind the potential of the metaverse.

Recent years have seen deep-pocketed technology companies enter the traditional media spaces, powered by a different economic model, supported by ecommerce sales, ad-sales or by device sales. These companies are not simply thinking about big opening weekend sales for a film or great ratings for a television show. They are competing for “time spent” by each audience member. This explains the expansion into categories as diverse as home security, fitness devices, groceries and more.

Embracing and, in fact, accelerating entry into the outer rings of these concentric circles offers expanded, potentially improved economics, and new ways to delight fans with incredible storytelling and experiences.





Going beyond video offers expanded, potentially improved economics, and new ways to delight fans with incredible storytelling and experiences.

## Transforming ads for a new era

Advertising is back. But it's different from before. Streaming companies need to clarify their role, help advertising agencies see their value, and find new, unique ways to keep audiences coming back for more to unlock this new value that AVOD/ FAST brings to the table. This is only the beginning of the innovation that will harness the potential of a very direct relationship with consumers.

It's time for companies to take the next step and knock on the "front door" of their consumers. The companies that do will reap the rewards.



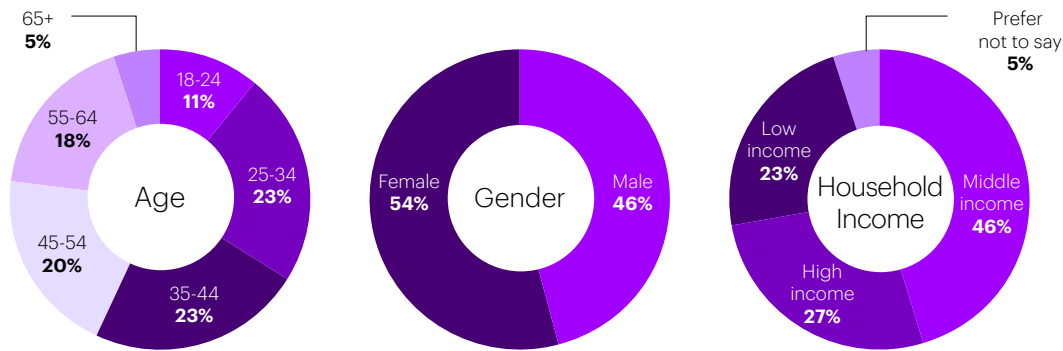
## About the research

Accenture conducted research to gain an understanding of global consumers' preferences, beliefs and behaviors on their video content streaming experiences. The online survey of 6,000 consumers age 18+ in 11 countries was designed to identify significant changes to the existing D2C media regime and offer suggestions for brands across the media spectrum to adapt their model to be more relevant and successful with customers. Fieldwork was conducted between October and November 2021.

Our research, and that of our partners in our ecosystem, employs ethical and responsible research methods. Respondents reveal their identities voluntarily, we anonymize all personal data in our data set, and report results in aggregate. We commit to not using the data collected to personally identify the respondents and/or contact the respondents.



## Demographics (Global)



## Countries

US (1000)  
Canada (500)  
Brazil (500)  
UK (500)

Italy (500)  
Spain (500)  
Germany (500)  
France (500)

South Africa (500)  
Japan (500)  
India (500)

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