FREEWHEEL
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U.S. VIDEO MARKETPLACE REPORT

10 YEARS

A DECADE OF EVOLUTION

A SPECIAL VMR REFLECTING ON 10 YEARS OF GROWTH AND CHANGE

H2 2020

FREEWHEEL
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U.S. VIDEO MARKETPLACE REPORT

H2 2020

The FreeWheel U.S. Video Marketplace Report highlights the changing dynamics of how enterprise-class content owners and distributors are monetizing premium digital video content.

The data set used for this report is one of the largest available on the usage and monetization of professional, rights-managed video content worldwide and is based on aggregated and anonymized advertising data collected through the FreeWheel platform.

#FreeWheelVMR

10 YEARS

INTRODUCTION

"Watching TV" means something entirely different today than it did 10 years ago. The explosive growth of connected TVs (CTV) and streaming services changed audience behaviors and expectations, created new advertising opportunities for marketers, and transformed the TV landscape for publishers. In honor of 2020 marking the VMR's 10-year anniversary, we are reflecting on the past decade, using data and observations from past VMRs in addition to analyzing data from H2 2020.

The past decade revealed a long pattern of fragmentation across systems, content, and operations. In 2019 we saw a move towards integration, with notable examples of content aggregation, system simplification, and operational consolidation. In 2020, audiences watched more television than ever before. And while viewers still expect to be able to watch what they want, when they want it and on the device of their choice, households increasingly opted to stream content on the biggest screen in the house: the television. We believe the "big screen" will continue to lead. Integration and simplification will be key themes in TV's next chapter of growth, and the next decade will further improve television's value for publishers, advertisers, and viewers alike.

KEY TAKEAWAYS

In this paper we review the decade of change in the premium video space while showcasing H2 2020 data and trends. Some H2 2020 highlights:

1. Overall ad views increased by 57% in H2 2020 compared to H2 2019

2. The share of viewing on non-desktop devices increased 7x since 2012, now making up 84% of ad views

3. CTV accounted for 62% of all measured ad views, with Roku and Fire TV contributing 72% of ad views (43% and 29% respectively)

4. Programmatic transactions accelerated in 2020, now representing 24% of premium video ad views

5. Audience targeting also accelerated, accounting for 91% of ad views, split evenly between demo and behavioral segments

2010

THE NUMBER OF NEW DEVICES EXPLODE

- Apple introduced the iPhone 4 and all major U.S. carriers made it available for the first-time, accelerating consumer adoption.[1]
- While pre-roll ads made up the majority of ad placements, mid-roll ads grew more than twice as fast (216% vs. 93%).[2]

2020 COMPARISON

- This year saw the quick rise and fall of Quibi, which was supposed to stand out from the crowd with the value prop: "Watch high-quality entertainment on the go!"[3] However, with Covid-19 stay-at-home orders limiting of 'on-the-go' viewing, Quibi sold its content library to Roku's CTV channel.
- Overall, in 2020, ad views increased 57% compared to the second half of 2019.

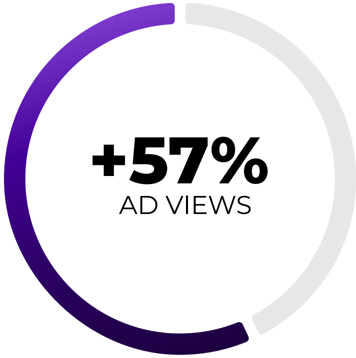

CHART 1
AD VIEW GROWTH
H2 2019 vs. H2 2020

CLICK TO DOWNLOAD

Source: FreeWheel U.S. Video Marketplace Report H2 2020. A Decade of TV Evolution.

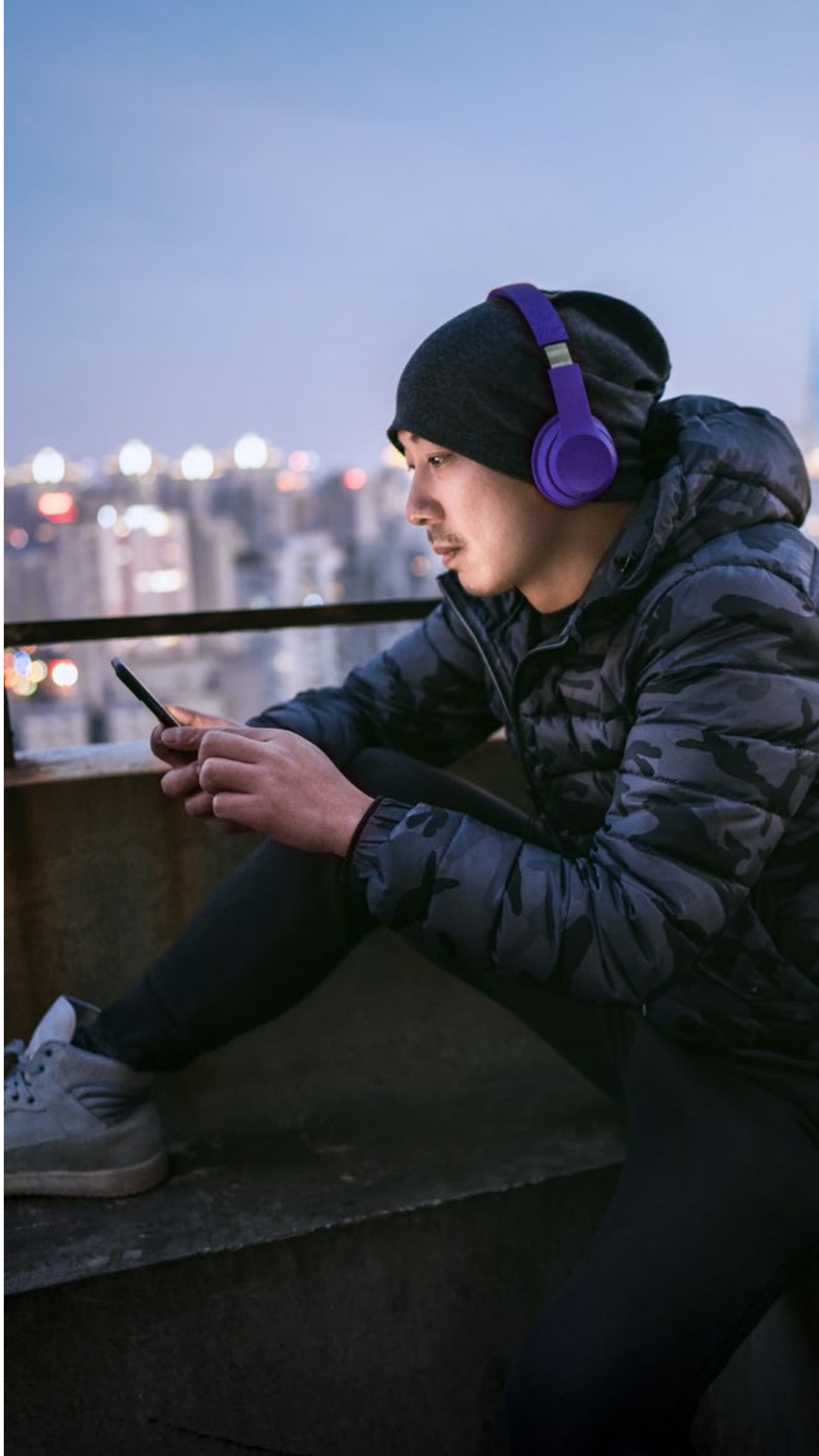

CHART 2
SHARE OF AD VIEWS BY DISTRIBUTION PLATFORM

H2 2020

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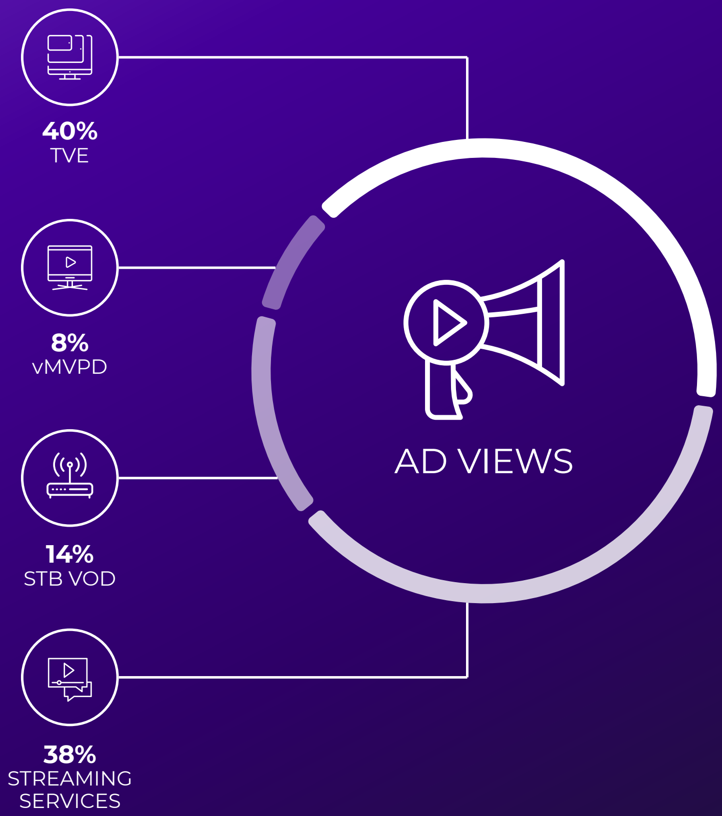


Source: FreeWheel U.S. Video Marketplace Report H2 2020. A Decade of TV Evolution.

2011

GROWTH OF TV EVERYWHERE

- TV Everywhere (TVE) exploded with the launch of WatchESPN and services from CNN and Fox.[4] Netflix CEO Reed Hastings called TV Everywhere Netflix's biggest competitor.[5]
- Noticeably more video content was monetized, causing the ratio between total video views and ad views to drop as publishers scaled their video advertising businesses.[6]

2020 COMPARISON

- Most major publishers have launched direct-to-consumer businesses in addition to their TV Everywhere offerings. Today TVE makes up 40% of ad views by distribution platform, with streaming services close behind at 38%.

FUTURE

Content companies have seen the benefits from having a direct relationship with their customers, and will increasingly prioritize direct-to-consumer services that give them access to viewing and audience data over TV Everywhere apps, creating a new set of competitors.

2012

STREAMING DEVICES MAKE WAVES

- Roku released the first streaming stick – designed to work with any television.[7]
- In response to the growth of video views on mobile and tablets, the VMR tracked devices other than desktops for the first time. In Q4 2012, non-deskop devices made up 12% of video views.[8]

2020 COMPARISON

- CTV devices have become inexpensive, ubiquitous, and easy to use, and "non-desktop" devices now make up 84% of ad views. CTV user interfaces are easy to navigate, and have consumer-friendly features including voice recognition, a headphone jack and programmable shortcuts. Some even support 4K resolution.

CHART 3

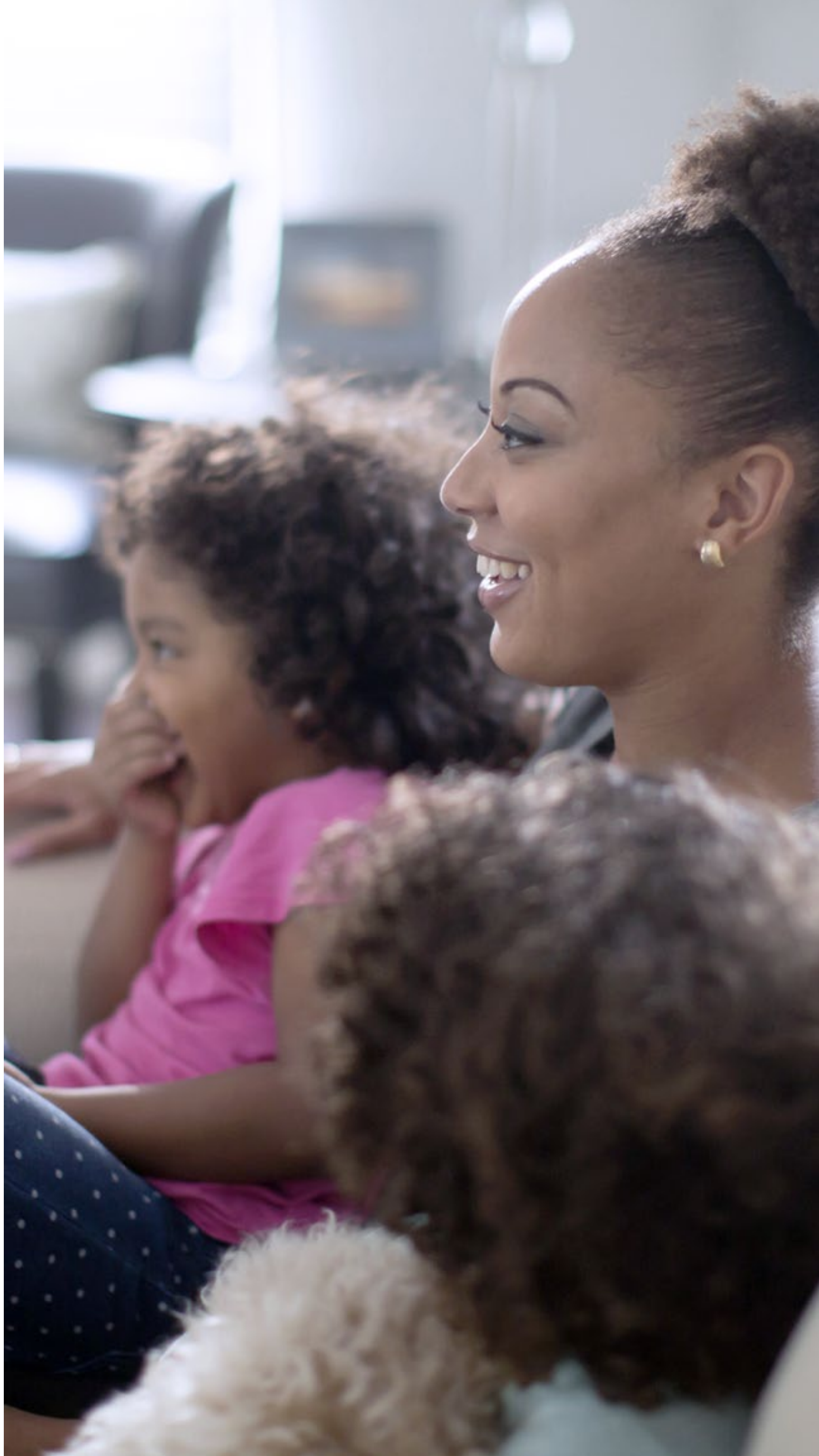
AD VIEW COMPOSITION BY DEVICE

H2 2020

CLICK TO DOWNLOAD

Source: FreeWheel U.S. Video Marketplace Report H2 2020. A Decade of TV Evolution.

Note: Starting in H2 2020, FreeWheel categorizes impressions from IP apps on MVPD set top boxes as 'CTV'



2013

CTV RISES THANKS TO GOLDEN AGE OF TV

- A golden age of television emerged, with AMC's Mad Men and Breaking Bad and FX's The Shield. AMC President Charlie Collier explained they are seeking to create a "product of distinction" and to "become premium television on basic cable."[9]

- The golden age of TV drove a rise in CTV viewing. While CTV accounted for only 2% of ad views in 2013, it more than doubled over the previous year.[10]

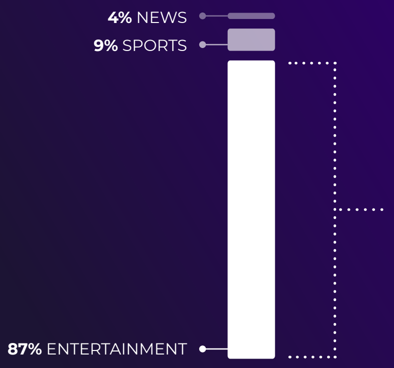
2020 COMPARISON

- When Covid-19 hit the country in mid-March, news consumption on streaming spiked. However, as the year progressed and live sports were delayed, many turned to entertainment content for an escape from their pandemic-imposed confinement (87% of total ad views). People also found themselves with children spending more time at home, contributing to a rise children's entertainment content. However, the number of scripted originals declined in 2020 for the first time in a decade after the pandemic halted productions and made them more costly to resume.[11]

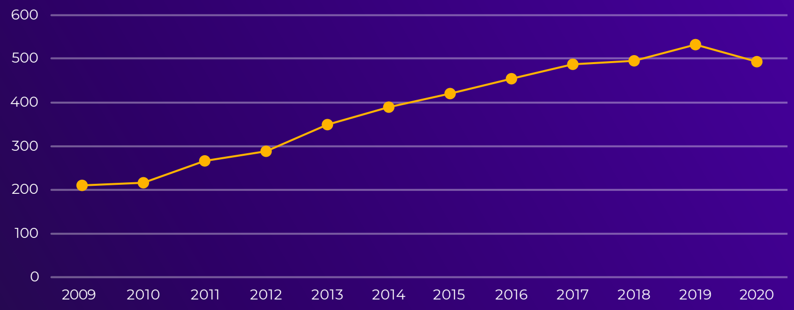
CHART 4
AD VIEW COMPOSITION BY VERTICAL

H2 2020

CLICK TO DOWNLOAD



NUMBER OF SCRIPTED ORIGINALS[11]



FUTURE

As more companies launch new streaming services, we expect that we'll continue to see healthy investment in original content. However, unlike in the past, more and more studios will be focusing their content engine on owned streaming services, rather than selling it off to other publishers.

Source: FreeWheel U.S. Video Marketplace Report H2 2020. A Decade of TV Evolution.

2014

CTV GETS CROWDED

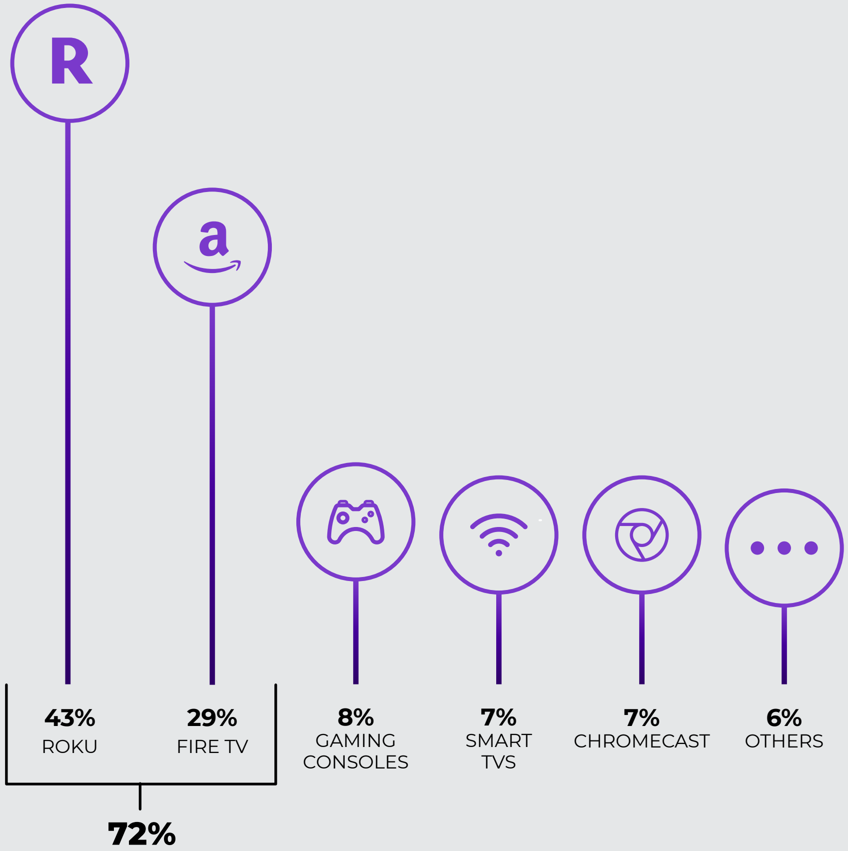
- Amazon announced the release of its Fire TV streaming device that features voice search and allows access to online games.[7]
- CTV streaming devices overtook tablets in Q4, accounting for 8% of ad views.[12]

2020 COMPARISON

- CTV's increased sophistication has reduced the need for consumers to have multiple devices. CTVs not only support VOD and gaming, but live emerges as one of the most important types of content. Roku and FireTV devices make up almost 3/4 of CTV ad views, but SmartTVs are giving them some competition: they grew 5% YOY.

CHART 5
AD VIEW COMPOSITION BY CTV DEVICE
H2 2020

CLICK TO DOWNLOAD



Source: FreeWheel U.S. Video Marketplace Report H2 2020. A Decade of TV Evolution.

CHART 6

AD VIEWS BY TRANSACTION TYPE

H2 2020

CLICK TO DOWNLOAD

Source: FreeWheel U.S. Video Marketplace Report H2 2020. A Decade of TV Evolution.

2015

INTRODUCTION OF HEADER BIDDING

- AppNexus introduced header bidding for display. Simultaneously, programmatic is started to gain traction in the video space, laying the groundwork for header bidding in video.[13]
- Non-direct sold ad views accounted for only 5% of programmer inventory, but secondary channels' market share increased 141% in just one year.[14]

2020 COMPARISON

- Programmatic hit a milestone in 2020, and now makes up 24% of ad views, as a result of publishers streamlining their tech stacks and as programmatic players adapt their technology to video.

FUTURE

The future of video advertising will be more automated and programmatic, but won't exactly mirror how most digital media is sold. Instead, it will be much more curated, with more direct negotiations, and a more intense focus on quality, privacy, and safety.

2016

OLYMPICS ACCELERATE NEW WAYS OF CONSUMING TV

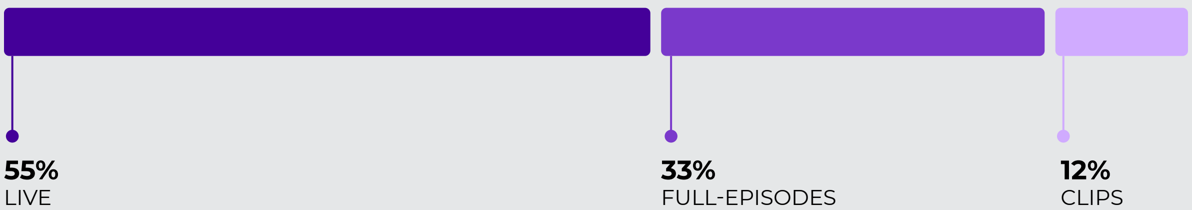
- The 2016 Olympics in Rio de Janeiro, Brazil led consumers to watch more live sports on digital platforms than ever before. The 2.71 billion minutes of streamed Olympic coverage was nearly double the combined live streaming of *all* prior Olympic games.[15]

2020 COMPARISON

- Watching live content on digital devices is now the norm. 55% of content consumed is live, but not all of it is sports. The primary driver is now the lean back experience of free, ad-supported streaming TV services (FASTS), such as PlutoTV, Xumo and Tubi. While more content is available on streaming than ever before, content discovery is hard, leading to consumer's decision fatigue.[16] Consumers often value not having to pick what to watch.

CHART 7
CONTENT COMPOSITION BY FORMAT
H2 2020

CLICK TO DOWNLOAD



FUTURE

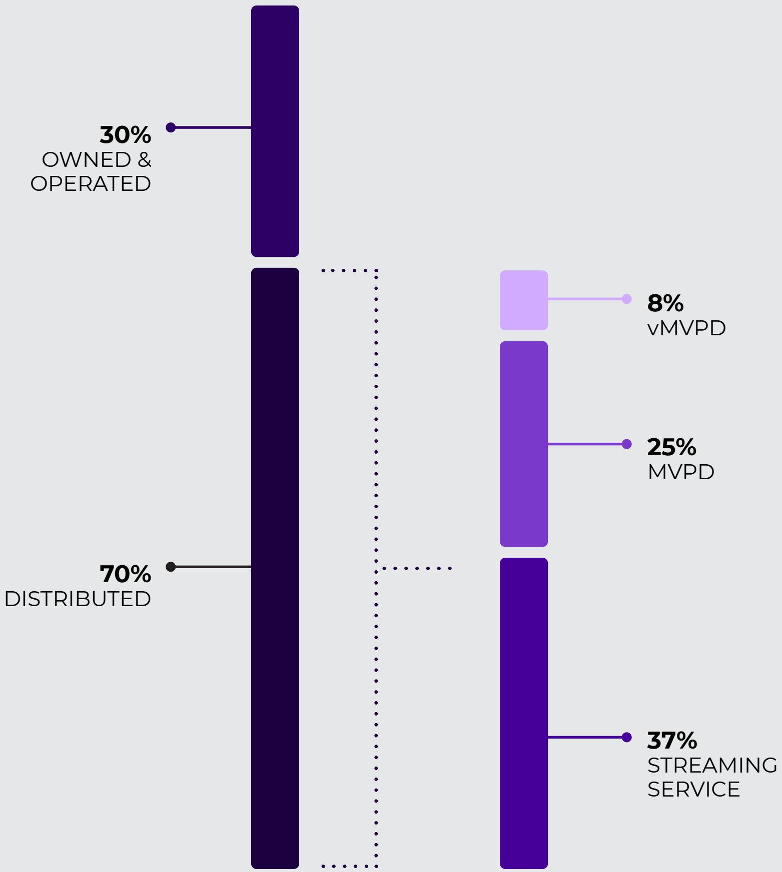
In the not-so-distant future, streaming will become a destination of choice for all forms of live viewing, especially sports, including not only "traditional" sports, but also video games and e-sports.

Source: FreeWheel U.S. Video Marketplace Report H2 2020. A Decade of TV Evolution.

CHART 8
SHARE OF AD VIEWS BY DISTRIBUTION PLATFORM

H2 2020

CLICK TO DOWNLOAD



Source: FreeWheel U.S. Video Marketplace Report H2 2020. A Decade of TV Evolution.

2017

DIGITAL NATIVES GET INTO BUNDLES BUSINESS

- The rise of virtual MVPDs continued as Hulu launched a live TV service, following a similar move by YouTube TV in April to compete with services like Dish's Sling and AT&T's DirecTV NOW. Analysts estimated that virtual MVPD subscriptions would top 5.37 million viewers by the end of 2017, forecasting they could represent 14% of viewership by 2030.[17]

2020 COMPARISON

- With CTV adoption on the rise and the number of streaming services exploding, content providers began to offer bundled options to consumers, such as Disney's combination of Disney+, ESPN and Hulu adding to vMPVDs' competition. It looks like the Analysts' predictions from 2017 will not come true - as of 2020 vMPVDs only make up 8% of distributed and the segment has declined 7% in volume from 2019.

2018

A STEP TOWARDS UNIFIED MEASUREMENT

- With viewership fragmentating across more and more devices, it's harder for advertisers to measure campaigns holistically. As part of the 2018 U.S. Upfronts, NBCUniversal rolled out CFlight, a new unified advertising metric that measures viewership regardless of when or where consumption occurred.[18]

2020 COMPARISON

- One way to overcome challenges in cross-screen measurement is to use consistent audience segments for both digital and linear buys. In 2020, ad views are evenly split between demo and behavioral segments. Nielsen announced its plan to roll out a more comprehensive cross-media measurement solution in late 2022,[19] which will be a major milestone for cross-screen measurement. NBCU's CFlight gains traction with VMN,[20] Sky and Seven One Media[21] incorporating it into their business.

CHART 9
AUDIENCE SHARE OF TARGETED CAMPAIGNS

H2 2020

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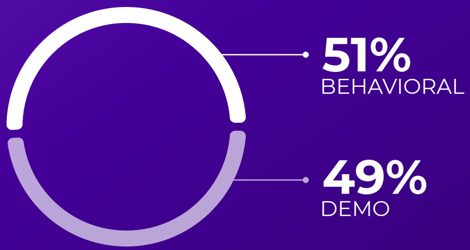


Source: FreeWheel U.S. Video Marketplace Report H2 2020. A Decade of TV Evolution.

CHART 10
AUDIENCE TARGETED AD VIEW GROWTH

H2 2020

CLICK TO DOWNLOAD

Source: FreeWheel U.S. Video Marketplace Report H2 2020. A Decade of TV Evolution.

2019

PUBLISHERS SCALE TO LAUNCH DTC

- Publishers doubled down on building relationships directly with the consumer by launching direct to consumer (DTC) streaming services. Disney and Apple each launched services offering a combination of library and original content. The need to offer original content drove consolidation in the industry. Viacom and CBS re-merged, but with a new twist – Pluto is part of the family,[22] and Disney acquired 21st century Fox to tap into its vast content library.[23]

2020 COMPARISON

- More DTC services emerge with AT&T launching HBO Max and NBCUniversal launching Peacock. Discovery (a combination of Scripps and legacy Discovery) announces plans to get into the game with Discovery+, and Viacom announces that CBS All Access will be rebranded Paramount+.

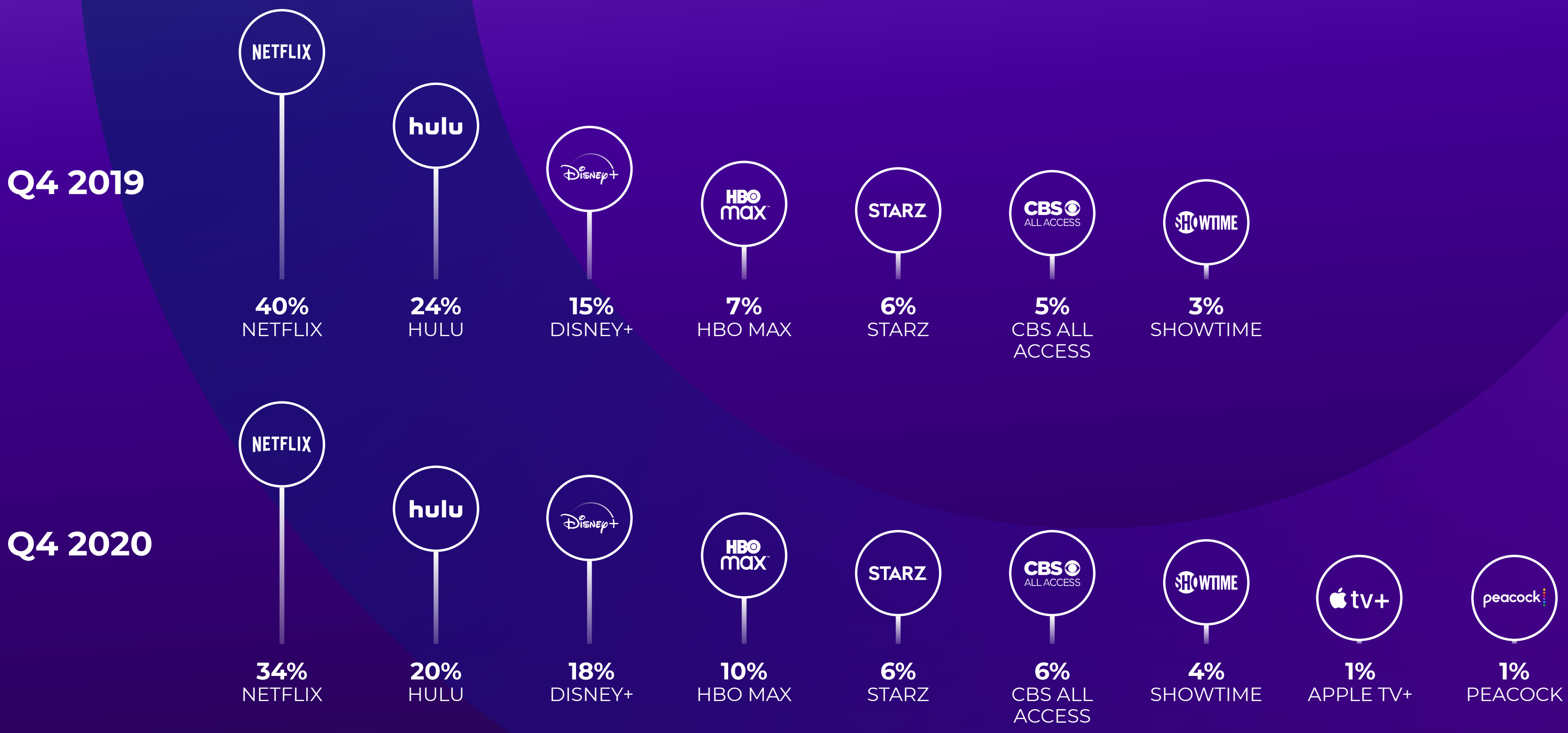
FUTURE

As the industry matures, some publishers will compete on quality to separate their services from lower-cost offerings. Conversely, others will try a low-cost/low-price strategy to increase the volume of sales.

CHART 11

SHARE OF PREMIUM SVOD SUBSCRIPTIONS

Q4 2019 vs. Q4 2020



Source: Antenna 4Q 2020 Streaming Report," Medium. Jan 2021.

Antenna data currently does not include free tier subscribers, MVPD + Telco distribution, select bundle (e.g. Hulu / Spotify) and vMVPD add-ons

HBO Max refers to HBO Max subscribers via Amazon Fire TV, Direct, iTunes and Roku; HBO subscribers via Amazon Channels; former HBO Now subscribers via these distribution channels

2020

COVID ACCELERATES TRANSFORMATION

2020 will always be remembered for Covid-19. Yet while the pandemic forced people inside, change and transformation in the TV industry continued apace. Like many industries, the pandemic accelerated transformations in the TV ecosystem.

As the industry began to mature, a fragmented ecosystem has shown signs that the curve is bending, and it is becoming more simplified. Initiatives like Project OAR debuted to offer dynamic ad insertion into linear television for Vizio Smart TVs at the Consumer Electronics Show (CES)[25] and the OAR Consortium gained momentum through a variety of tests with publishers.[26] On Addressability, the initiative between Comcast, Charter and Cox, gained traction, announcing AMCN as their first programmer.[27]

Unification became more of a reality with disparate systems coming together to support cross-platform planning, delivery and reporting by both NBCU[28] and Viacom.[29] As the shift to digital from linear viewership continues, these platforms will become increasingly critical to enable buyers to reach their target consumer anywhere.

LOOKING FORWARD

As we look towards the TV industry's next 10 years of maturation, specifically keep an eye out for these trends:

1. **Competition to be the TV operating systems (TVOS)** – SmartTVs with streamlined user interfaces, diverse content and reduced ad loads will put first movers such as Roku and Amazon on defense.

2. **DTC Gets Crowded** – DTC will continue to be critical for publishers because it enables them to own consumer data directly. DTC streaming services will either adopt a low-price strategy to stand out, or they will go the other direction and compete on premium original content.

3. **Content is King, But How to Scale the Kingdom?** – Studios and DTC services will continue to integrate as part of companies' efforts to create original content that attracts audiences.

4. **Live Streaming Grows** – Live streaming will not slow down. In fact, it will expand into other areas, including gaming, social media and audio.

5. **Programmatic Gets Savvy** - Programmatic video won't exactly mirror how most digital media is sold. It will be much more curated, and security and privacy will be critical to scale.

ABOUT THE AUTHORS

DAVID DWORIN

Leads FreeWheel's Advisory Services team, where he helps clients navigate the ever evolving premium video ecosystem. Prior to joining FreeWheel, David spent a decade leading growth strategy initiatives at leading agencies, consultancies, and professional services firms.

JULIA ZANGWILL

Senior Manager in FreeWheel's Global Advisory Services and oversees the team's thought leadership. Her areas of expertise include addressability enablement, monetization strategy, and unification assessment. Prior to FreeWheel, Julia worked at Viacom Media Networks and AMC Networks in business development, focused on growing advertising revenue.

HALEY GLAZER

Senior Consultant in the Advisory Services team, working with media clients to deliver industry benchmarking, network optimization and reporting and analytics enhancements. Prior to FreeWheel, she worked in ad sales research and corporate analytics at Scripps Networks Interactive and iHeartMedia, and has just completed her Master's Degree in Data Science.

ANTHONY WARD

Consultant in FreeWheel's Advisory practice. His areas of expertise include data sourcing, analytics and insights. Prior to FreeWheel, Anthony delivered solutions including their underlying architecture in the programmatic space.

GLOSSARY

Ad Completion Rate – Measures the percentage of ads that were completed once started

Addressable TV – Addressability is a form of personalization that optimizes relevance and timing to deliver effective brand engagement at scale. It is a means of connecting your product, content, or offer with the people who would be most interested in it.

Ad View – Occurs each time an ad is displayed

Clip - Video content under 10 minutes long

Connected TV (CTV) – A television set that is connected to the Internet via OTT devices, Blu-ray players, streaming box or stick, and gaming consoles, or has built-in internet capabilities (i.e., a Smart TV) and is able to access a variety of long-form and short-form web-based content

Content Vertical – Content genre, e.g. news, entertainment, sports

Deal ID – Unique deal identifier of a programmatic transaction that can be used to match advertisers and publishers directly

Direct-sold – Advertising deals made directly between a publisher and an advertiser

Distributor – A party other than the content rights owner that manages the platform upon which content and advertisements are delivered

Dynamic Ad Insertion (DAI) – Process of dynamically inserting ads into a content stream, such that different ads can be inserted into the same ad break

Linear – Traditional broadcast, cable, or satellite television

Long form – Video content 10 minutes or longer

Mid-roll – An ad break that occurs in the middle of content

Multichannel Video Programming Distributor (MVPD) – Provides pay TV services delivered either through broadcast satellite or cable TV. Examples include Comcast and Verizon

MVPD / Operator – A service provider that delivers video programming services, usually for a subscription fee (pay television). Usually includes cable, satellite, and telecommunications service providers.

Pre-roll – An ad break that occurs before content starts

Premium Video – Video content that is professionally produced, rights managed, and limited in supply

Programmatic – The use of automation software or managed services to execute an advertising deal

Publisher – Owner or licensor of content (content rights owner).

Set-top Box Video On Demand (STB VOD) – Accompanies a cable/broadcast/ satellite setup. Contains a cable input and outputs to a TV.

Streaming Services – Ad supported, streaming video service that has live feeds and/or video on demand. Examples include Pluto, Xumo, Hulu (not Hulu Live)

TV Everywhere – Services that accompany a cable/satellite subscription, allowing the customer to watch the channels in their package anywhere, both inside and outside the home, without a set-top-box.

Video View – Accrued after the first frame of video content is displayed

Virtual MVPD (vMVPD) – Digital-only cable alternatives that offer access to both live and on demand premium video content for a subscription fee

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More Information
David Dworin, VP, Advisory Services
ddworin@freewheel.com

Media Inquiries
Dan Friedman, VP, Communications
daniel_friedman@freewheel.com

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