BEYOND SVOD

AD-SUPPORTED STREAMING IS STARTING TO STAND OUT AS VIDEO OPTIONS MULTIPLY

AD-SUPPORTED STREAMING IS ON THE RISE

As would be expected in a situation where consumers from coast-to-coast were forced into self-quarantine, television consumption, particularly streaming, went through the roof earlier this year as the novel coronavirus (COVID-19) pandemic took hold. But while much of the streaming discussion focused on high-profile subscription video on demand (SVOD) content like *Tiger King, Ozark* and *Upload*, ad-supported video on demand continued to expand its foothold.

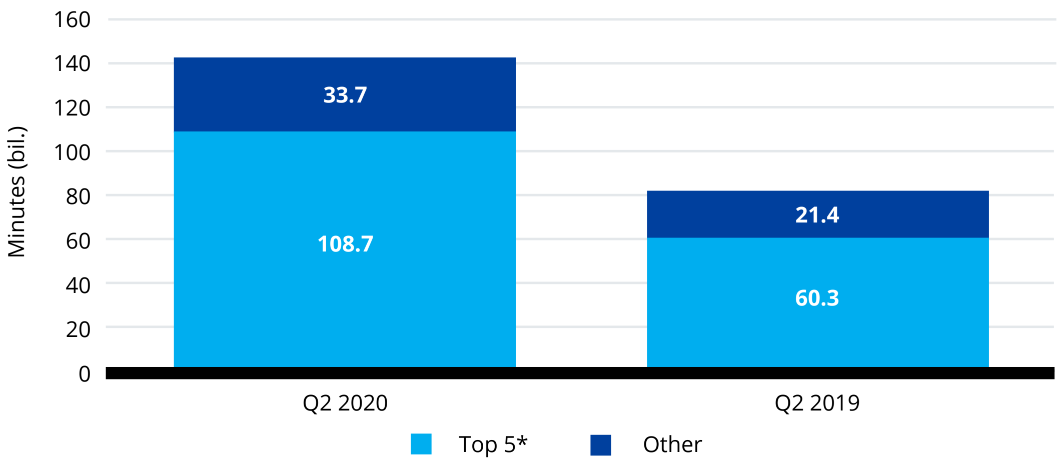
Known by an array of acronyms, such as AVOD, FAST (free ad-supported TV) and CTV (connected TV), these streaming varieties offer cost-conscious consumers yet another option to add to their viewing choices. What's especially interesting is that many are affiliated with large media conglomerates, offering them the ability to offer content in an increasingly popular way while facilitating targeted, dynamic ad insertions.

The stay-at-home period this spring drove all-time highs for all forms of video streaming in the U.S. And while those highs have subsided somewhat, usage levels have been on an upward trajectory over the past few years, and they're markedly higher now that they were a year ago. And today, even as consumers are enjoying warmer weather, the streaming share of TV usage remains higher than before nationwide shelter-in-place restrictions were implemented.

Undoubtedly, the pandemic upended our everyday (and night) routines, forcing us to seek out new and engaging ways to pass the time, and streaming came to the rescue. And in the process, it may have shifted media consumption patterns permanently, particularly for segments of the population who weren't streaming before. That's because despite warming weather and the freedom to leave our homes, the time we spend streaming video remains well above where it was a year ago. Comparatively, many traditional media consumption trends, such as linear TV viewing and traditional AM/FM radio tune-in, are nearly back to seasonally normalized levels.

According to Nielsen's Streaming Meter data, Americans age 2 and older spent more than 123 billion minutes streaming video content the week of July 20, 2020 (well after much of the U.S. had re-opened). That's up more than 33% from the 92.3 billion minutes streamed the week of July 22, 2019. Streaming also now accounts for one-fourth of total TV usage among streaming-capable homes, which is up from 16% a year ago.

GROSS MINUTES OF VIDEO STREAMING WATCHED



Top 5: Amazon Prime, Hulu, Netflix, Disney+ and YouTube
*Top 5 in 2019 does not include Disney+, as it launched November 2019.

VIDEO STREAMING USAGE IN U.S. STREAMING CAPABLE HOMES IS UP 16% FROM LAST YEAR

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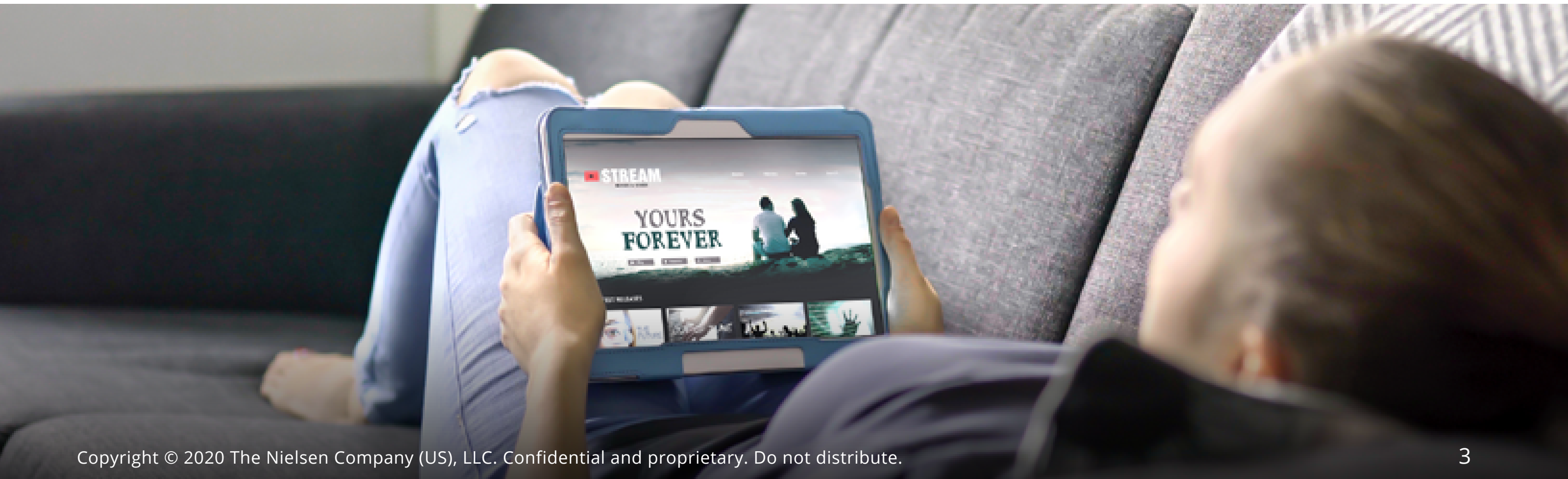
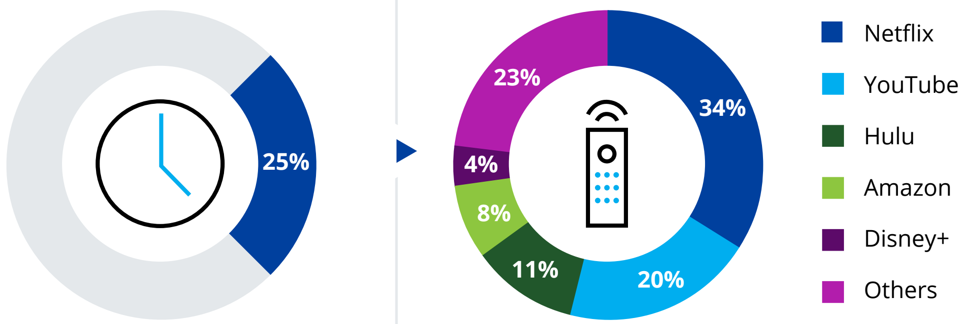
In aggregate, the streaming video landscape is very broad, yet many are quick to think of just the big SVOD services when they think of "streaming." Competition, cord-cutting, consumer demand and access to content, however, have opened the door to a vast array of players, platforms and content options that fall outside the well-known SVOD realm of Netflix, Amazon and Hulu. Within the U.S. streaming universe, the "other" players—everything other than Netflix, Hulu, YouTube, Amazon Prime Video and Disney+ (which launched November 2019)—account for 23% of the U.S. streaming pie. The amount of time viewers spent watching "other" content in second-quarter 2020 increased more than 57% year-over-year, accounting for more than 12 billion minutes.



U.S. VIDEO STREAMING USAGE AND DISTRIBUTION

% of Streaming out of Total Usage of TV
AMONG STREAMING CAPABLE HOMES
Q2 2020, A2+

Video Streaming Distribution % by Brand
Q2 2020, A2+



Source: Nielsen Streaming Meter, July 2020, Based on known sources.

TIME SPENT WATCHING “OTHER” VIDEO STREAMING CONTENT INCREASED 16.3 BILLION MINUTES OVER THE PAST YEAR

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Importantly, the streaming environment has grown well beyond VOD options, and most streaming platforms and content providers are built on ad-supported business models (although some have tiered their offerings to include both ad-supported and ad-free programming). Today, the over-the-top (OTT) streaming world includes:

- **Ad-supported video on demand (AVOD) content:** ad-supported original, library and licensed content (TV programs and movies) that consumers can watch on demand. Examples include Vudu, Crackle, Tubi and newly launched Peacock (Peacock also has a premium, ad-free tier). There are also a few AVOD players that also offer scheduled TV programming as part of their service. Pluto TV is an example of this type of content streaming services, and Roku recently launched a free, ad-supported service as well.

- **Virtual multichannel video programming distributor (vMVPD) content:** live and scheduled content made available to consumers via internet connection. vMVPDs came into existence because companies were looking to attract cord cutters with smaller video packages (skinny bundles) than were available through cable boxes and satellite offerings. Today, the vMVPD category has grown substantially, and most services are subscription-based. More recently, a handful of ad-supported vMVPD offerings have come online that offer scheduled, library content for free. Examples of subscription-based vMVPDs include Sling TV and fuboTV. Sling TV also offers on-demand content.

Platform and service nuances aside, one attribute unites the content in the AVOD and vMVPD space: advertising. That's the important part, particularly because digital ad spend is rising. And while global ad spend will dip this year, the February 2020 Nielsen Total Audience report forecasts that digital media spend should top $500 billion globally by 2023. That's just $100 billion shy of last year's total global ad spend (approximately $600 billion).

Digital is where media consumption is rising, and as new digital video content offerings have come online, consumers have been quick to embrace it. That engagement across smartphones, tablets and CTVs is fueling upticks in aggregate media consumption, which is currently over 12 hours each day. With streaming consumption still above pre-pandemic levels and digital ad spend steadily trending upward, ad-supported video couldn't be better positioned to capitalize.

AMERICANS NOW SPEND MORE THAN 12 HOURS ENGAGING WITH MEDIA EACH DAY

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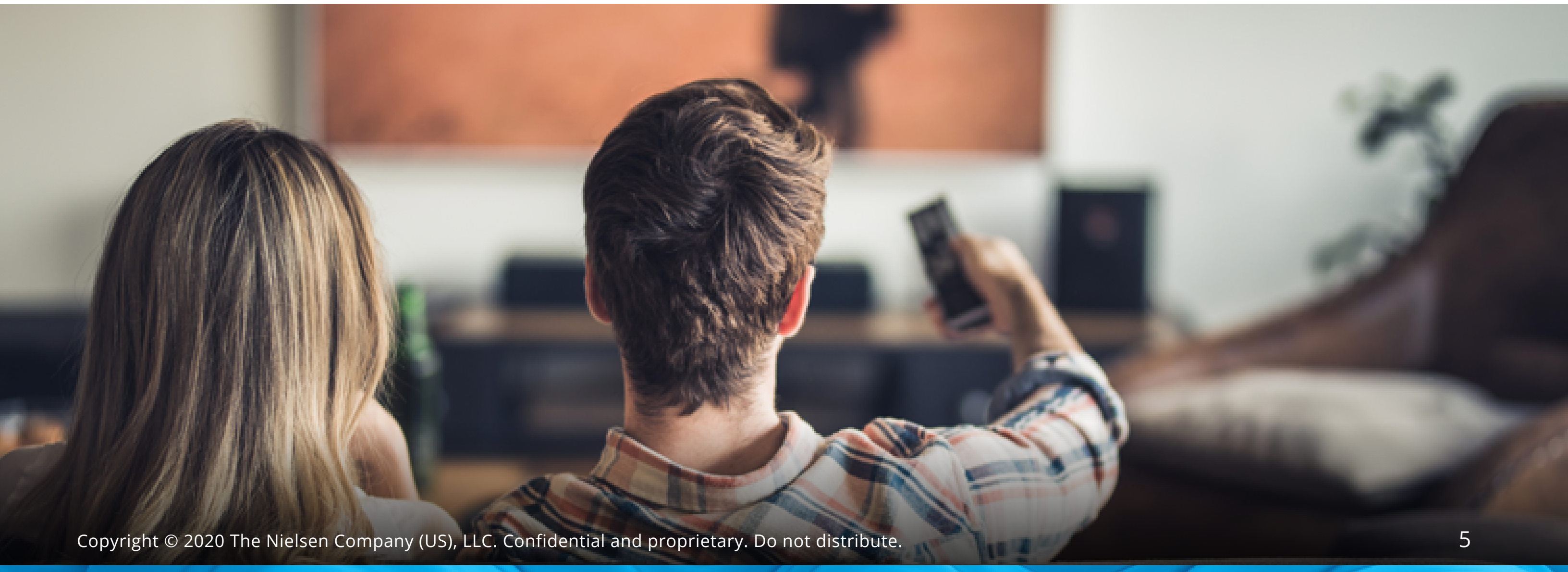
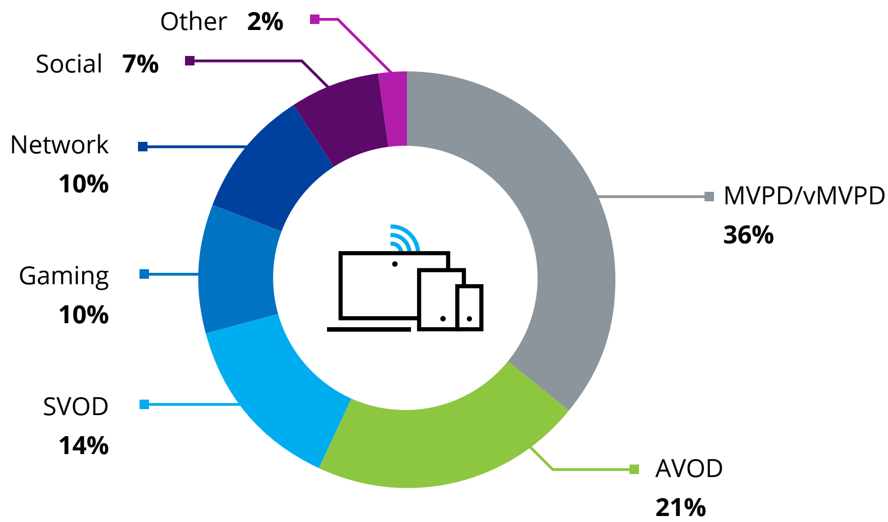
Make no mistake: Good content will always attract an audience. The content field, however, is growing increasingly crowded and fragmented. That places an increased burden on all parties interested in capturing and keeping audiences engaged. But while media fragmentation is nothing new, the troubled economy represents a unique consideration as people weigh their media options in the short- to medium term. The ripple effects of rising unemployment, strained spending patterns and waning consumer sentiment brought on by the global health crisis could play a role in shifting the share of distribution in the streaming space. And what's more, any prolonged shift would increase the likelihood that new trends become ingrained behaviors rather than temporary ones.

Currently, MVPDs, vMVPDs and AVOD services account for the slight majority of share (just under 60%) within the less-discussed realm in the streaming space. Gaming accounts for approximately 10%, and the rest includes a mix of network offerings, social platforms, SVOD platforms and other measured options.



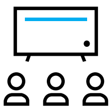
SHARE OF 'OTHER' VIDEO STREAMING CATEGORY



Source: Nielsen Streaming Meter data, July 2020

When it comes to cost, ad-supported models don't always take the place of service fees. The combination of vMVPDs and MVPDs (traditional cable companies that augment traditional delivery with a streaming app), which have the greatest share, are only available to paying subscribers. The fees, however, are reflective of fewer channel options than larger cable and satellite packages, often making them more fiscally prudent if a decision is solely based on cost. Notably, many vMVPD providers have increased their service fees in recent months, some of which reflect the carriage fees they have to pay content providers to air their programming.

Despite recessionary conditions, cost might not be a factor for some content-hungry consumers. Pay TV, for example, grew during the Great Recession, highlighting that consumers were eager and willing to pay for high-quality content despite the negative economic conditions. And in a recent custom survey assessing how U.S. consumers are adjusting to work-from-home life while in the throws of the COVID-19 pandemic, 25% of respondents said they have increased their video streaming subscriptions this year: 37% did so because they have more time at home and 34% did so to access more content.



25% OF SURVEYED AMERICANS SAY THEY ARE STREAMING MORE THIS YEAR AS A RESULT OF COVID-19

Cost, however, will be a factor for many consumers. Rising unemployment in the U.S. is a clear indicator of consumers' ability to spend, and on what. Free will be key for cash-strapped consumers, and consumers with multiple subscriptions may pare down to be more fiscally responsible. If times get tight, ad-supported free models could supplement any gaps left by cancelled services.

Nielsen's research around recalibrated consumption dynamics amid COVID-19 highlights the emergence of two consumer groups: constrained spenders and insulated spenders. Importantly, the insulated spenders, who are less affected financially, will still make more fiscally prudent decisions in the current environment simply to air on the side of caution amid the ongoing uncertainty.

While cost is a factor in any environment, there is a limit to how many services a typical consumer will subscribe to. So newer entrants looking to carve out their own niches in the streaming realm might gain more traction quickly via ad-supported model. According to Deloitte's 14th Digital media trends survey, almost 50% of Americans are watching ad-supported video content, and that's up 18% from pre-COVID-19. In Asia, the ad-supported model is the mainstay, as these services reach over 1 billion people.

Importantly, user bases are anything but homogenous, just like in the linear TV realm. And as a result, many of the content offerings in the ad-supported space are geared toward appealing to specific ages and people with focused interests, like sports, children's programming and multicultural programming. For consumers, there's never been a better time to be a video watcher, but content producers and advertisers need to know who's watching, when they're watching and how much they're watching in order to ensure that the content—and the advertising—delivers on consumer expectations. If it doesn't, consumers have a bevy of other options to choose from, and they're not afraid to try something new.

When we look across age groups, for example, we see engagement across a wide range of video options. Notably, the mix includes similar shares of a range of vMVPD and AVOD services across all age groups, but people 18-34 have a particular fondness for esports and video gaming content when it comes to the AVOD and vMVPD realm. And somewhat more surprisingly, this type of video content accounts for very little share of any other age group's media consumption across vMVPD and AVOD services, which speaks to the vast majority of options available.

Consumers in the U.S. now have more than 300 different video streaming services to choose from, evidence that there will never be a shortage of things to watch, even if lockdown conditions were to return and take us into the foreseeable future. Ad-supported models appear poised to continue growing the rich wealth of streaming content offerings already available. Importantly, content providers and advertisers will need accurate insight into the increasingly fragmented space, including share of market, program-level measurement and ad measurement within ad-supported programming. Armed with that data, providers and advertisers will be well equipped to adjust as consumer behaviors shift in order to rise above the rest and stay viable amid the intensifying streaming wars.

INTERESTED IN LEARNING MORE ABOUT STREAMING TO DRIVE YOUR BUSINESS FORWARD?

Contact Nielsen at MarketingSolutions@nielsen.com

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