

# Why Free Beats Fee:

## The Rise of Ad-Supported Streaming on CTV

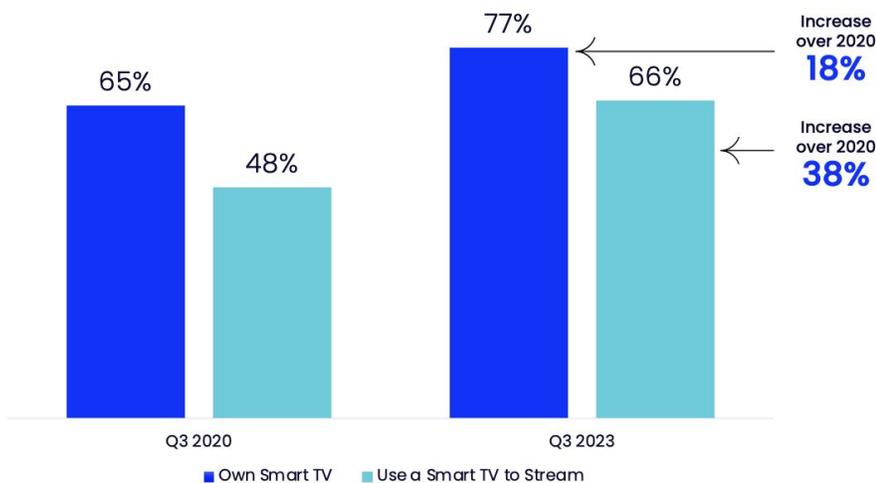
In the ever-evolving landscape of digital advertising, streaming has emerged as a key channel to reach your consumers; however, due to the dynamic nature of consumer preferences and technological advancements, the landscape continues to shift. This whitepaper delves into a comprehensive exploration of the contemporary streaming landscape specific to connected TV (CTV). From there, we narrow this lens to focus on Free Ad-Supported Streaming TV (FAST) channels, examining their role and impact on the industry. We also explore the nuances of CTV audiences, shedding light on demographic makeups and how audiences vary across channels based on different content interests. Lastly, we reveal insights surrounding top industry trends that will shape the future trajectory of streaming and its impact on advertising tactics. As an encapsulation of the findings shared from the American Research Foundation's OTT 2023 conference, this research unveils intel that lies at the intersection of technology, content, and audience engagement and highlights emerging trends that offer insight into ways to fully capitalize on this avenue of advertising and inform future marketing decisions.

This information has been compiled by Kargo. Powered by a comprehensive platform across mobile, desktop, video, and CTV, Kargo is an cross-channel advertising partner that utilizes its proprietary creative science solution and premium environments to drive every tactic and placement. Reach out to your Kargo representative for further information surrounding Kargo's offerings.

# 01 Changes In The Streaming Ecosystem

The television landscape is undergoing a paradigm shift. Propelled by technological advancements, emergence of new streaming platforms, increased content availability, and shifting consumer dynamics, the connected TV (CTV) space provides advertisers an extensive array of new opportunities. This section examines these changes over recent years and reviews the current state of the channel.

In recent years, the prevalence of Smart TV ownership has surged, rising from 65% in 2020 to 77% in 2023. This represents a three-quarters penetration in households across the U.S. The usage of streaming apps and internal features embedded in Smart TVs has experienced a notable rise, increasing from 48% in 2020 to 66% in 2023 (38% increase over 2020). This underscores the widespread adoption of Smart TVs in the U.S.



This upward trajectory of consumer consumption can also be seen across the overall streaming domain, with more people streaming now than before:

- 73% of total U.S. homes stream on CTV as of July 2023, +4% vs July 2022.
- 238M total persons in U.S. stream on CTV as of July 2023, +4M vs July 2022.

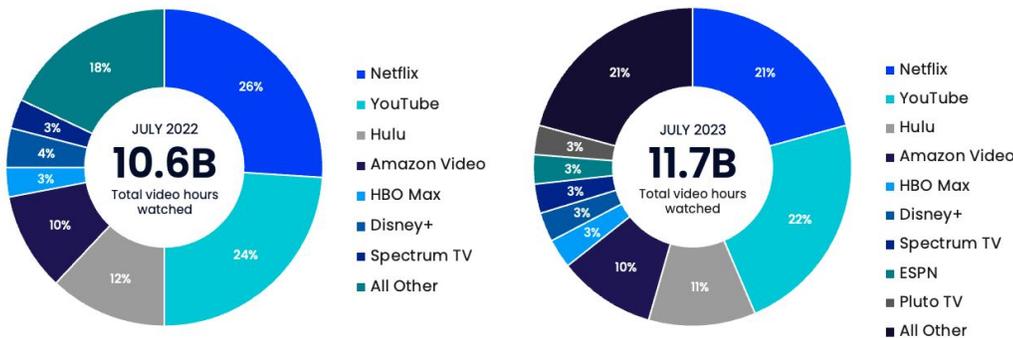
As the demand for streaming content has risen substantially, a consistent and discernable year-over-year increase in the average number of streaming services used per household is evident.

- July 2019: 4
- July 2021: 5
- July 2023: 6

# 01 Changes In The Streaming Ecosystem

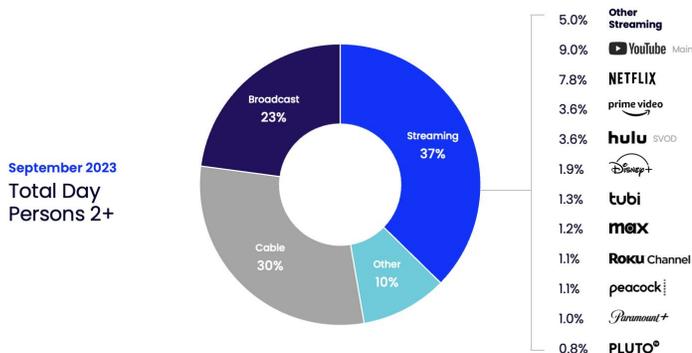
The consistent increase in streaming service consumption is founded in the expanding array of streaming services saturating the market. Initially, the landscape was dominated by the 'Top 6' ~ Netflix, YouTube, Prime Video, Hulu, Disney+, and Max. Although these industry titans maintain their premier status, the recent growth of the industry stems from channels outside of these giants. Across the industry, a notable 10% increase in total video hours streamed on CTV was seen when comparing July 2023 to July 2022. After analyzing the source of this additional growth, a striking 88% increase in video hours was observed outside the 'Top 6'. Of note, a quick-growing contributor to both streaming inventory and overall time spend was sourced from the Free Ad-supported Streaming TV (FAST) services such as Pluto.

% Share of total video hours streaming on CTV devices



88% of video hours growth coming from outside Top 6

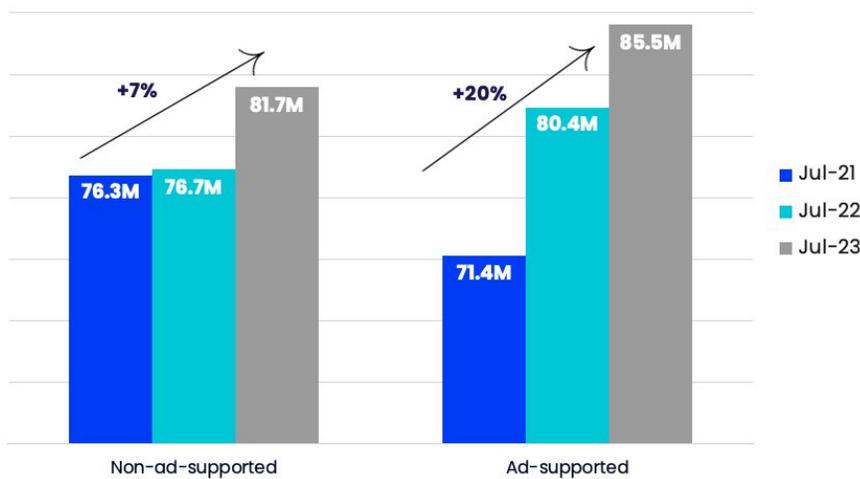
The proliferation of both providers and content has ushered in a transformative shift in consumer consumption habits. As of September 2023, while YouTube and Netflix maintain their dominance in streaming share, formidable competitors -- including platforms such as Disney+, Tubi, Max, Roku, and Peacock -- have emerged. In response to heightened competition, platforms are strategically redirecting their focus towards content-driven growth to provide compelling offers that vie for consumer attention.



# 01 Changes In The Streaming Ecosystem

While much of content remains behind subscription-based models, American consumers are swiftly adopting ad-supported streaming as evidenced by a notable 20% surge in CTV households viewing ad-supported services from July 2021 to July 2023. This is in comparison to a 7% increase observed for non-ad-supported streaming across the same time period.

% of survey respondents who generally watched VOD content and used the service



This shift has also provided an ideal opportunity for Free Ad-supported Streaming TV (FAST) channels to gain traction. FAST channels present a seamless avenue for streaming adoption, as they offer consumers a cost-free experience. Consequently, FAST channels are experiencing rapid growth in user adoption and a substantial increase in time spent on platform. Xumo, a premier FAST channel, has witnessed an impressive 48% growth in its audience over the past 15 months, with an average of 6.6 hours consumed per household per viewing day.

**Advertisers Can Capture Consistent, Highly Engaged Audiences Through MVPD/VMVPD Streaming**

Top 10 Video Services (Hours per HH) July 2023

	Hours per HH	Hours per HH per Viewing Day
Spectrum TV	80.55	4.56
Youtube*	41.86	3.03
Netflix	36.70	3.0
ESPN	34.87	2.5
Xumo	34.38	6.6
Hulu	30.64	3.09
Philo	25.36	1.87
Fubo.tv	20.45	2.19
Pluto TV	19.59	3.17
Sling	18.74	2.09

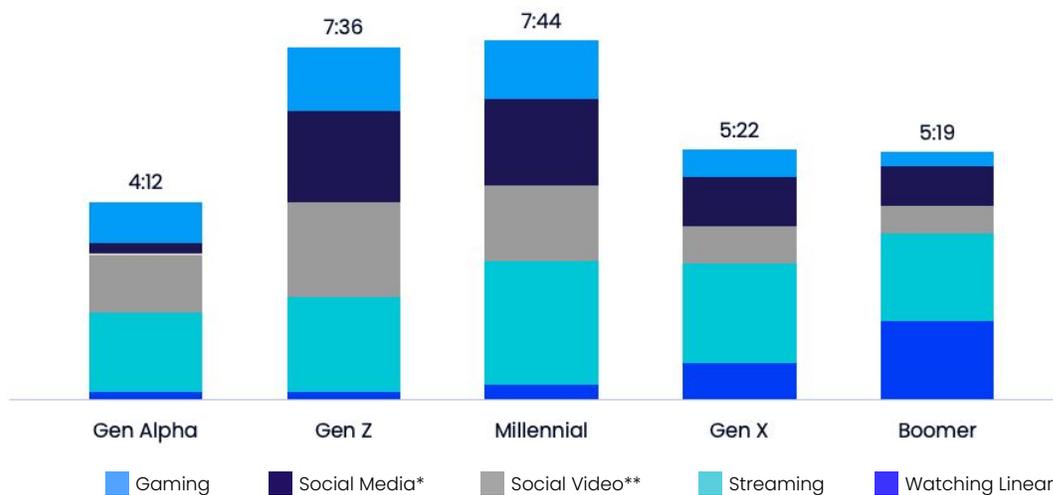
8 of the Top 10 Services (by intensity of engagement) are Ad-Supported Live/Linear Streaming

# 02 Streaming Audience Composition

The CTV landscape, with its wide expanse of platforms and content offerings, presents a large and diverse audience makeup. The dynamic nature of these platforms ensures that audiences differ not only in size but also in preferences, behaviors, and engagement patterns. This section aims to dissect CTV platforms and their corresponding audiences and in doing so, provide valuable insights into where specific audiences can be found.

Across all generations, streaming is now the dominant way to watch long-form content (TV shows and movies). Millennials consume the largest share of time for streaming out of each generation studied.

Share of time on each activity. N=5000, weekday/weekend

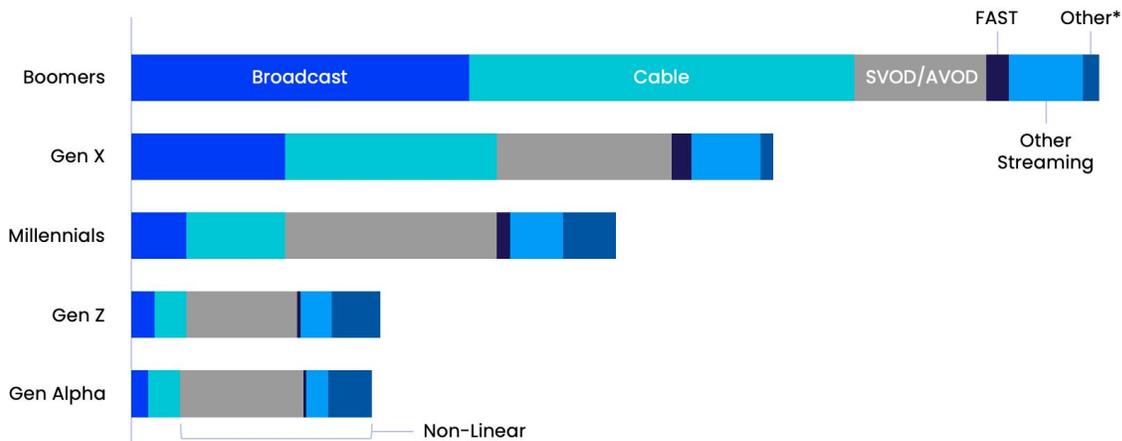


Among generational cohorts, a pattern of time spent by platform has emerged. Boomers and Gen X persistently allocate a substantial proportion of their viewing time to cable, signifying a steadfast engagement with traditional television mediums among these groups. However, a transition occurs with Millennials, where the consumption trend pivots towards subscription video on demand (SVOD) and ad-supported video on demand (AVOD) platforms.

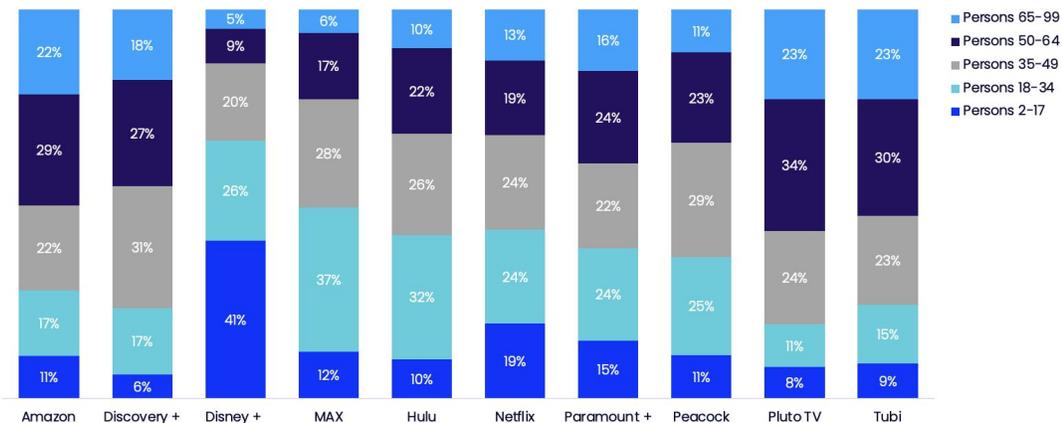
# 02 Streaming Audience Composition

This paradigm shift persists through subsequent generations, including Gen Z and Gen Alpha, as these younger demographics increasingly gravitate towards on-demand and ad-supported streaming services.

Minutes Viewed On TV Screen By Platform (Q1 2023)



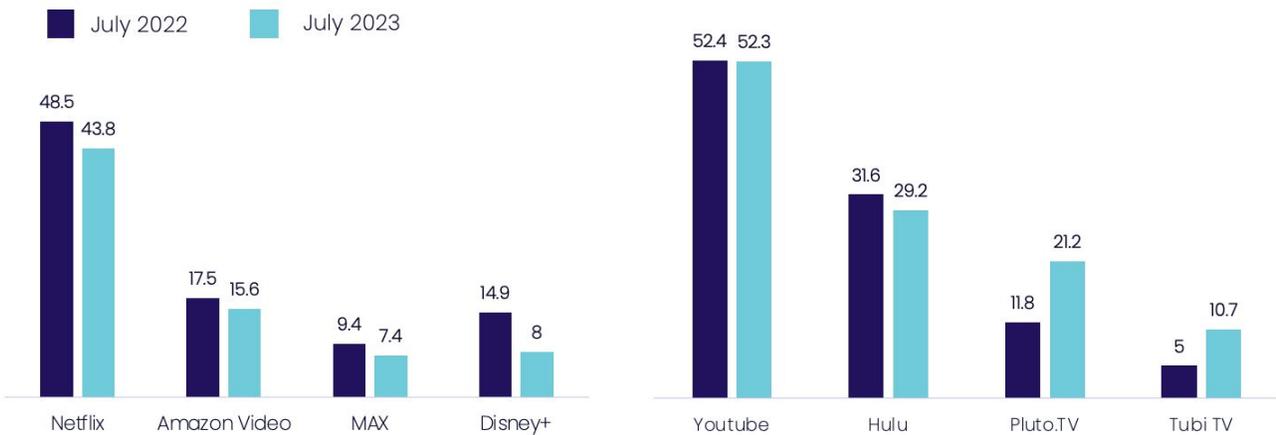
The proliferation of platforms and content has attracted all age groups to a variety of platforms, with preferences by age group observed. Notably, platforms such as Disney+ have carved a niche with a predominantly younger-skewing audience, boasting 67% of viewers under the age of 35. In contrast, Discovery+ has garnered a substantial audience between the ages of 35 - 49, constituting 31% of its viewership. Depending on your target demographics, these findings highlight the importance of leveraging a spectrum of streaming platforms in order to extend reach and capture the interest of diverse audience cohorts.



# 02 Streaming Audience Composition

Minority audiences exhibit a robust presence within CTV, notably thriving across the FAST and AVOD platforms. This is likely tied to the community-specific programming and exclusive originals available on these platforms. A compelling illustration of this platform affinity can be observed among the Hispanic audience, which experienced a +46% year-over-year increase in CTV hours per Hispanic household across FAST channels during the comparative period of July 2022 to July 2023. Data also shows a decline in time spent on major streaming platforms such as Netflix and Amazon Video among the Hispanic audience during the same timeframe.

## CTV Hours per Hispanic Household



Likewise, the African American audience exhibited a 25% increase in engagement with Tubi and 22% increase in engagement with Pluto and the platforms' associated services from March 2022 to May 2023.

% of black/AA survey respondents who watched AVOD content and used the service y/y

**tubi**

+25%

**pluto** (TV)

+22%

**Roku**  
Channel

+19%

# 03 Industry Trends To Keep An Eye On

As consumers increase their content consumption of CTV, the industry has seen a major shift toward a dual-focus: capture and keep consumer attention on their platforms. Simultaneously, consumer expectations provide a compelling narrative that continues to shape the CTV landscape. In this section, we review the prevailing trends across CTV and dig into the ways they impact advertising decision-making strategies.

## 1 Streaming Platform Churn

A recurrent pattern of subscription churn has emerged as a customary practice. A noteworthy 43% of respondents admitted to subscribing to services, cancelling, and re-subscribing again based on content they want to see on the platform. This fluid approach to subscription management is more pronounced among younger customers, with a significant 62% of individuals ages 18-24 and 59% of those ages 25-34 affirming they follow this practice to guarantee that they're only paying for shows they want to watch. This practice highlights the need to diversify a CTV advertising strategy, as consumers may have an affinity towards a particular platform but may not consistently be located there at any given time.

## 2 Cost & Complexity Barriers

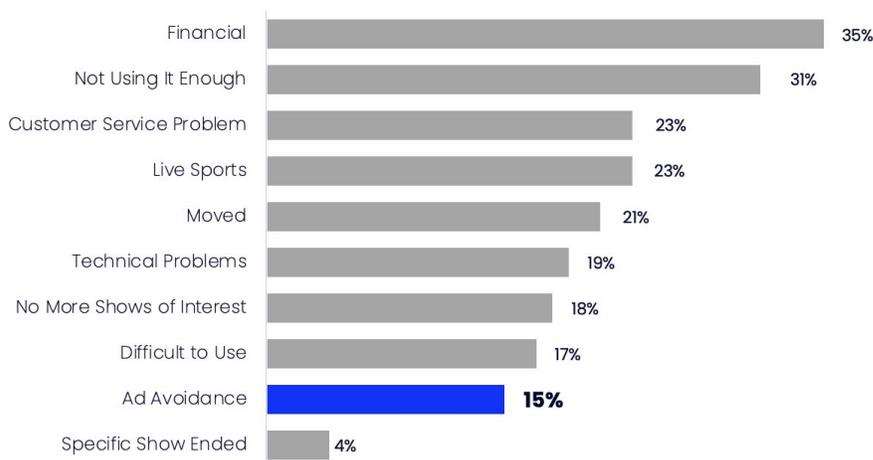
Consumers are grappling with the challenges of escalating costs and the growing complexity of offerings and services in CTV. A resounding 88% of surveyed consumers expressed the perception that the cost of TV is getting more expensive. Similarly, a compelling 81% of respondents acknowledged the existence of a saturation point, agreeing that there's a limit to the number of sources of entertainment they need. This dual sentiment underscores the delicate equilibrium consumers seek in balancing cost-effectiveness and simplicity with the ever-expanding realm of CTV and links directly to the emerging prevalence of time spent on FAST channels. For advertisers, this presents an opportunity to capture a leaned-in audience on more cost-effective platforms.

# 03 Industry Trends To Keep An Eye On

## 3 Affinity Towards Advertising

A prevailing sentiment has emerged among consumers which positions advertisements as an acceptable trade-off for the accessibility of free content. A notable 70% of respondents expressed a preference for the ad-supported model, preferring to watch, play, or listen for free with ads within the content, rather than opting for a cost-based subscription. Furthermore, 58% of viewers expressed receptiveness to reduced or free subscription costs in exchange for incorporating advertisements into their streaming experience. This data suggests that ads on a platform do not wield substantial influence as drivers of cancellations, as only a modest 15% of respondents cited ad avoidance as a primary reason for discontinuing their streaming subscription. Overall, these findings underscore two key points: consumers are receptive to advertising across CTV platforms, and ultimately, ads help drive retention by decreasing the cost barrier noted previously.

What were the main reasons you cancelled?



Don't miss the opportunity to expand your brand's reach and engagement; start experimenting with Kargo's innovative ad solutions across both premium CTV as well as FAST content to complement your CTV strategy.