

IAB Internet Advertising Revenue Report



A Quarterly Survey Conducted by PricewaterhouseCoopers
and Sponsored by the Internet Advertising Bureau (IAB)

2000 Second-Quarter Results
October 2000



Internet
Advertising
Bureau

Table of Contents

Background	2
Executive Summary	3
Detailed Findings	4
2000 Second-Quarter and First Six-Month Results	
Annual, Quarterly and Monthly Trends	
Industry Concentration	
Pricing Models	
Deal Transactions	
Advertising Vehicles	
Industry Category Spending	
Publisher Content Genre	
Appendix	14
Survey Scope and Methodology	
IAB Board Officers and Directors	
Organization Profiles	

Background

About the IAB Internet Advertising Revenue Report

Conducted by the New Media Group of PricewaterhouseCoopers on an ongoing basis, with results released quarterly, the "Internet Advertising Revenue Report" was initiated by the Internet Advertising Bureau (IAB) in 1996. This report aggregates data and information reported directly to PricewaterhouseCoopers by companies representing thousands of Web sites, in addition to other on-line companies.

The results reported are the most accurate measurement of Internet/on-line advertising revenues since the data is compiled directly from information supplied by companies selling advertising on-line. All inclusive, the report includes data reflecting on-line advertising revenues from Web sites, commercial on-line services, ISPs, e-mail providers, broadcast and push technologies, as well as other companies selling on-line advertising.

The report is conducted independently by PricewaterhouseCoopers on behalf of the IAB, and only aggregate results are published. Individual company information is held in strict confidence with PricewaterhouseCoopers. Further details regarding scope and methodology are provided in the appendix to this report.

Tom Hyland
Partner, New Media Group Chair
PricewaterhouseCoopers

Pete Petrusky
New Media Group Director
PricewaterhouseCoopers

Executive Summary

IAB Internet Advertising Revenue Report 2000 Second-Quarter and First Six-Month Highlights

Internet/on-line advertising revenues (“revenues”) totaled \$2.1 billion in the second quarter of 2000, an 8.8 percent increase over the 2000 first quarter, and a 127.3 percent increase over the second quarter of 1999. First six-month revenues of 2000 reached \$4.1 billion, a 150.5 percent increase over the same period in 1999.

Key trends underlying 2000 year-to-date results:

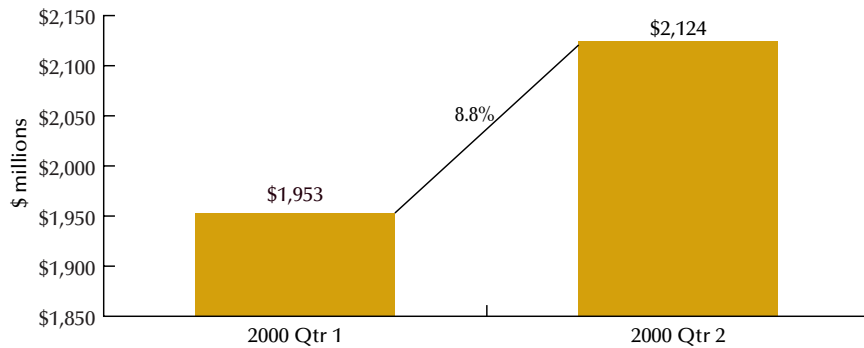
- ◆ **Second-Quarter and First Six-Month Revenues Continue Growth Trend** – revenues totaled over \$2.1 for the second quarter of 2000, a 127 percent increase over the comparable 1999 second-quarter total of \$934 million. The growth rate is in line with seasonal expectations for year-over-year second quarter growth. Applying historical seasonal data analysis (1996-1999), 2000 year-to-date revenues of \$4.1 billion are on a conservative annual run rate of between \$8 billion-\$10 billion.
- ◆ **Consumer Advertisers Continue to Lead Growth** – consumer brand advertisers represented the largest category of advertiser spending at 30 percent of 2000 second-quarter revenues, and 31 percent of the 2000 6-month revenues, up slightly from 29 percent and 28 percent reported for the 1999 second quarter and 6-month respectively. Computing advertisers, the second-largest category, accounted for 17 percent of 2000 second-quarter revenues, followed by financial services at 15 percent, and business services companies at 10 percent of 2000 second-quarter revenues. Advertising by media companies reached 9 percent, up sharply from 4 percent in the second quarter of 1999.
- ◆ **Pricing Models Gradually Shifting** – hybrid pricing (combination of impression-based pricing plus performance-based compensation) accounted for 46 percent of total revenues during the second quarter of 2000, down slightly from 48 percent reported in the first quarter of 2000. While hybrid pricing continues to be favored over impression-based pricing, the margin has been gradually decreasing. Hybrid pricing deals accounted for 47 percent of the 2000 6-month revenues, down from 51 percent reported for the first 6 months in 1999.
- ◆ **Internet Advertising Remains Concentrated** – the 10 leading companies accounted for 71 percent of total 2000 second-quarter revenues, up slightly from 69 percent reported for the 2000 first quarter, continuing a three-quarter trend, but down from 75 percent reported for the second quarter of 1999. The 25 and 50 leading publishers accounted for 83 percent and 91 percent of 2000 second-quarter revenues respectively.

Detailed Findings

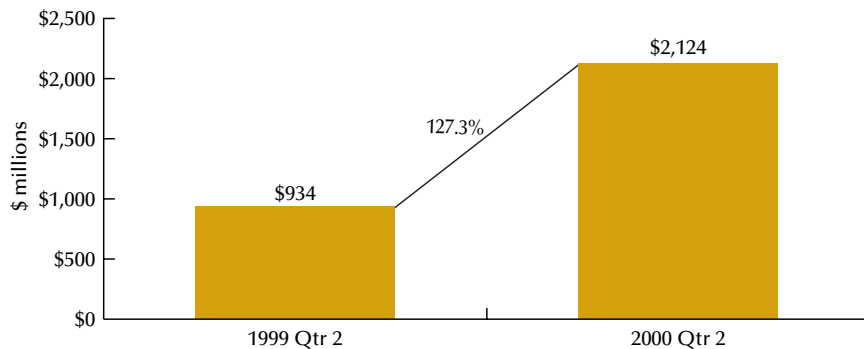
Revenues Totaled \$2.1 Billion for the Second Quarter of 2000

- ◆ On-line publishers reported aggregate revenues totaling \$2.1 billion for the 2000 second quarter, marking the 17th consecutive quarterly increase since reporting for the first quarter of 1996.
- ◆ Total 2000 second-quarter revenues were \$171 million or 8.8 percent higher than the first quarter of 2000, and \$1.2 billion or 127.3 percent higher than the second quarter of 1999.

2000 Q2 vs 2000 Q1



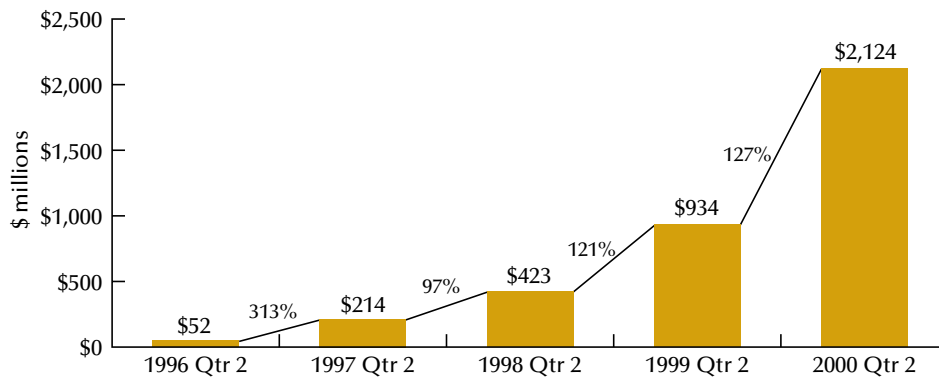
2000 Q2 vs 1999 Q2



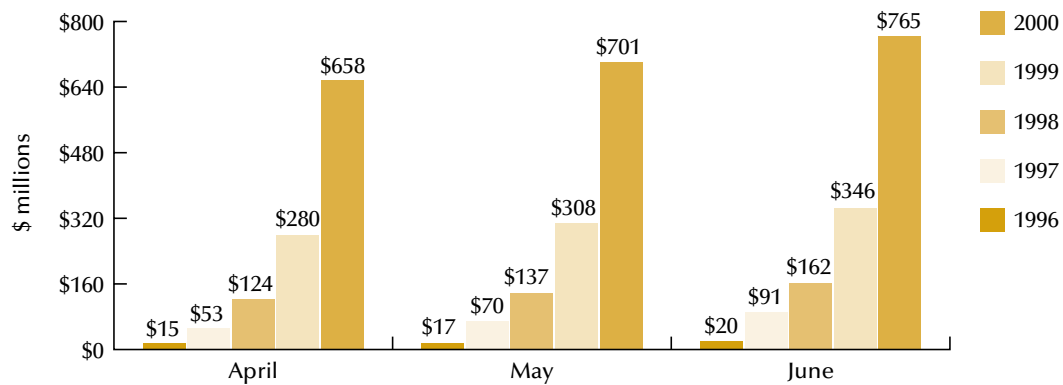
Historical Second-Quarter Revenue Trends

- ◆ Second-quarter revenues have increased significantly on a year-over-year percentage and dollar basis during the past four years.
- ◆ Revenues averaged \$708 million per month during the second quarter of 2000, compared to the 2000 first-quarter average of \$651 million, and the 1999 second-quarter average of \$311 million.

Second-Quarter \$ Revenue Comparisons - 1996 thru 2000

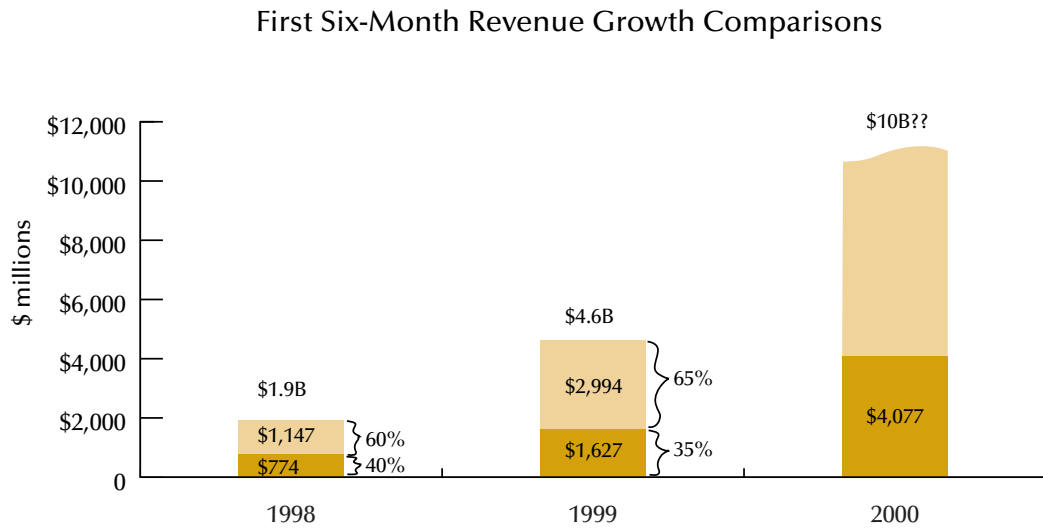
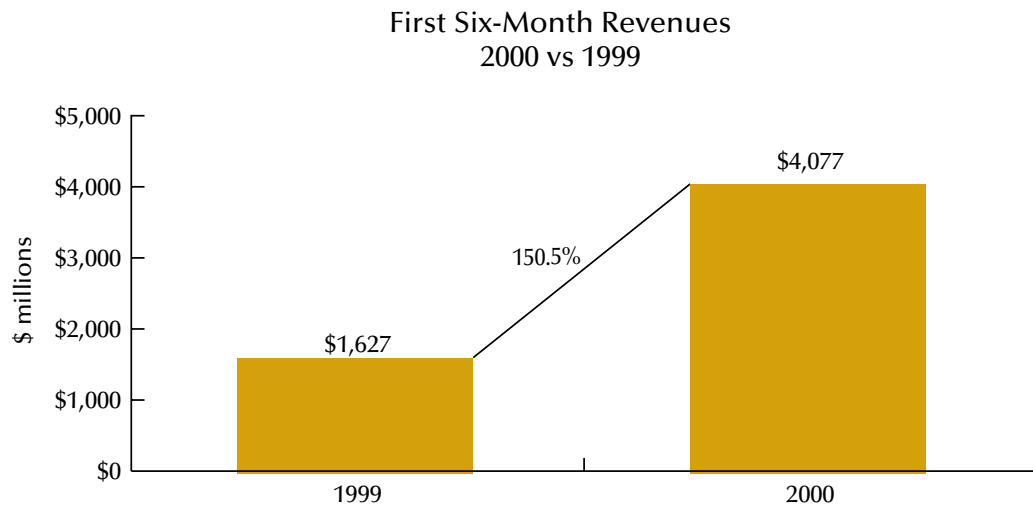


Second-Quarter Monthly \$ Revenue Comparisons - 1996 thru 2000



2000 First Six-Month Revenues Totaled \$4.1 Billion

- ◆ First six-month revenues for 2000 totaled \$4.1 billion, \$2.4 billion or 151 percent higher than 1999.
- ◆ Using seasonality data from prior years (1996-1999), 2000 year-to-date revenues of \$4.1 billion are on an annual run-rate of between \$8 billion-\$10 billion.



Revenues Historically Experience the Strongest Percentage Growth in the Second and Fourth Quarters

Annual and Quarterly Revenue Growth Comparisons

	\$ Rev Millions	% Growth	
		Qtr/Qtr	Year/Year
1Q96	\$30	NA	
2Q96	\$52	74%	
3Q96	\$76	46%	
4Q96	\$110	45%	
Total 1996	\$267		
1Q97	\$130	18%	333%
2Q97	\$214	66%	313%
3Q97	\$227	6%	200%
4Q97	\$336	48%	205%
Total 1997	\$907		239%
1Q98	\$351	5%	171%
2Q98	\$423	20%	97%
3Q98	\$491	16%	116%
4Q98	\$656	34%	95%
Total 1998	\$1,920		112%
1Q99	\$693	6%	97%
2Q99	\$934	35%	121%
3Q99	\$1,217	30%	148%
4Q99	\$1,777	46%	171%
Total 1999	\$4,621		141%
1Q00	\$1,953	10%	182%
2Q00	\$2,124	9%	127%

Industry Revenues Remain Concentrated

- ◆ On-line advertising remains concentrated with the 10 leading companies, which accounted for 71 percent of total revenues in the second quarter of 2000, up from 69 percent reported for the first quarter of 2000.
- ◆ Increased concentration was driven by a 14 percent growth in the top 10 company tier, compared to 5 percent growth for companies in the next two tiers (companies ranked 11th to 50th).
- ◆ Companies ranked 11th to 25th accounted for 12 percent of revenues, down from 13 percent in the first quarter of 2000. Companies ranked 26th to 50th accounted for 8 percent, down from 9 percent in the first quarter of 2000.

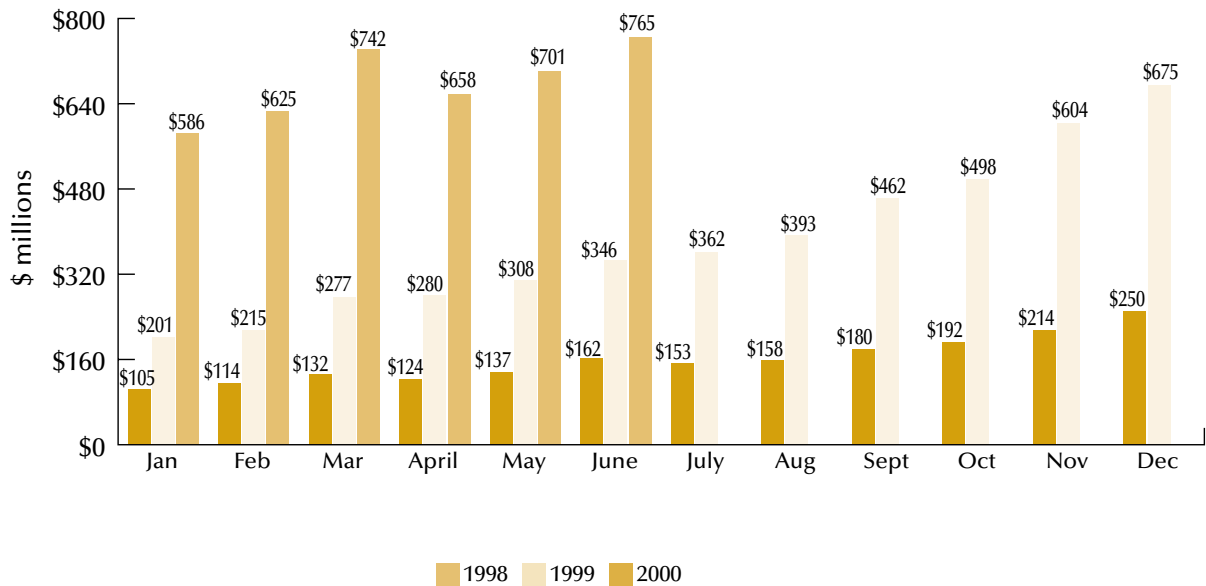
Total Share of Internet Advertising Revenues

	1998				1999				2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Top 10	64%	67%	70%	71%	75%	75%	72%	70%	69%	71%		
Top 25	75%	80%	84%	86%	88%	86%	84%	85%	82%	83%		
Top 50	79%	85%	91%	92%	93%	90%	87%	94%	91%	91%		

Monthly Revenues Continue to Post Year-Over-Year Growth

- ◆ Monthly industry revenues averaged \$708 million during the second quarter of 2000.
- ◆ Revenues have averaged compound monthly growth of 7 percent between July 1999 and June 2000.
- ◆ Revenues totaled \$765 million for the month of June 2000, more than double the total for June 1999.

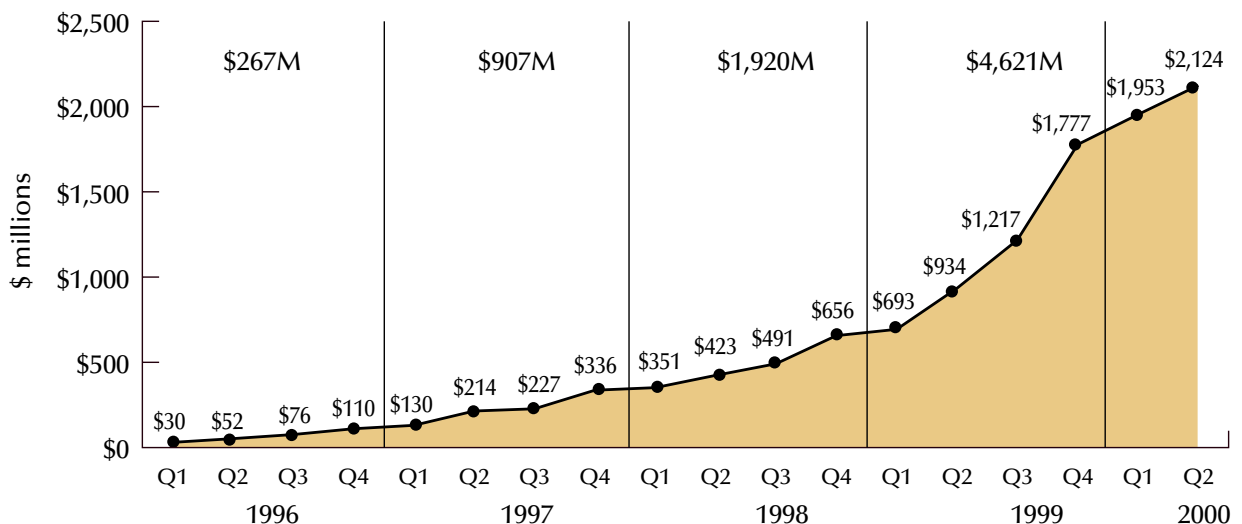
Monthly \$ Revenue Growth Comparisons



Revenues Historically Exhibit Seasonality

- ◆ Quarterly industry revenues have historically exhibited a seasonal growth pattern where the strongest growth occurs during the second and fourth quarters.
- ◆ Second-quarter revenues in 2000 posted less than double-digit percentage growth over the previous first-quarter of 2000, partly reflecting an unusually strong first quarter in 2000 versus comparable first quarters during the previous two years.

Quarterly \$ Revenue Growth Comparisons

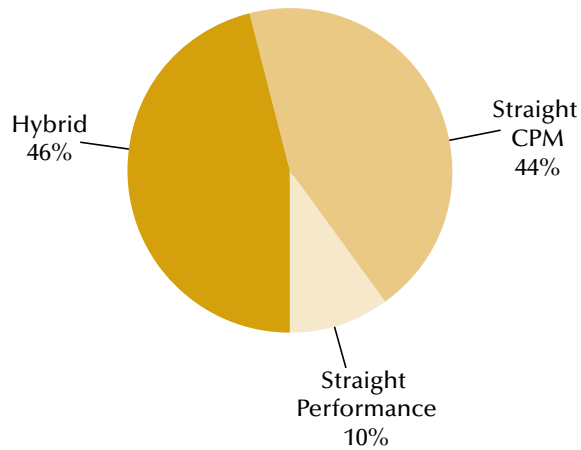


Majority of Internet Advertising Revenues are Priced on a Hybrid Basis

- ◆ Survey participants reported 46 percent of 2000 second-quarter revenues were priced on a hybrid basis (e.g., mix of impression-based pricing plus performed-based compensation), down from 52 percent reported for the second quarter of 1999.
- ◆ Approximately 44 percent of 2000 second-quarter revenues were priced on a straight CPM or impression basis (includes sponsorships), up from 41 percent reported for the second quarter of 1999.
- ◆ Ten percent of 2000 second-quarter revenues were priced on a straight performance basis (e.g., cost-per-click, sale, lead or straight revenue share) up from the 7 percent reported for the 1999 second quarter.

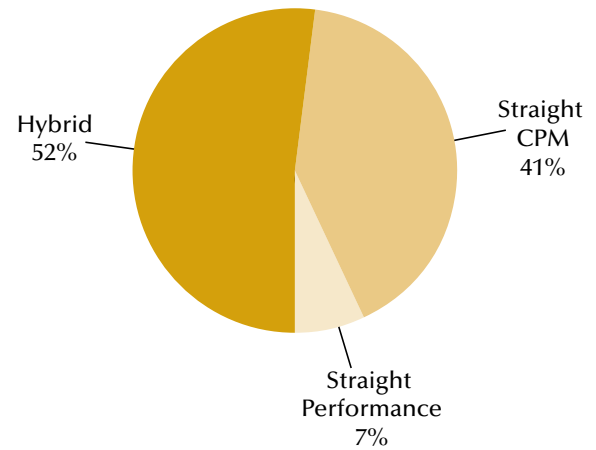
Internet Ad Revenues by Pricing Model

% of 2000 Second-Quarter Revenues



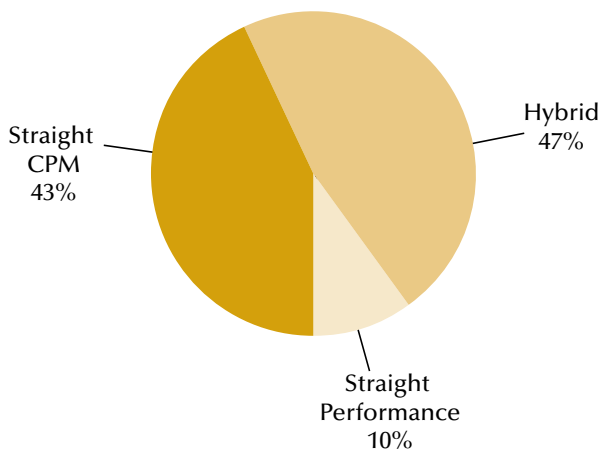
Total – \$2.1 billion

% of 1999 Second-Quarter Revenues



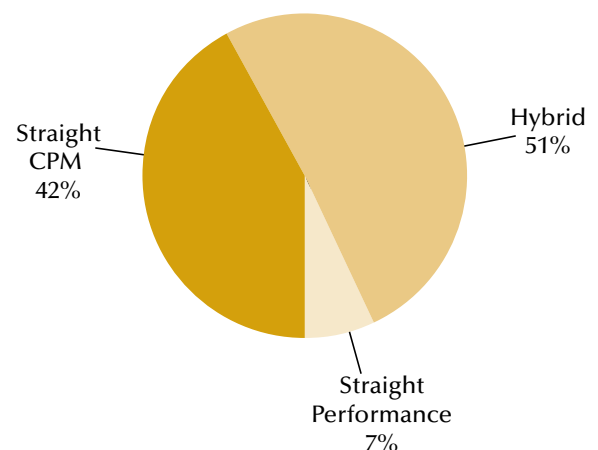
Total – \$934 million

% of 2000 First Six-Month Revenues



Total – \$4.1 billion

% of 1999 First Six-Month Revenues



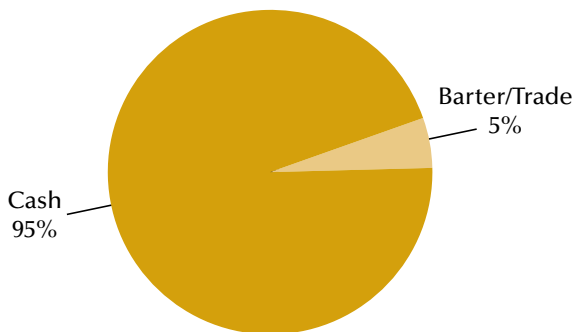
Total – \$1.6 billion

Cash Deals Remain the Dominant Transaction

- ◆ Approximately 95 percent of total advertising revenues generated in the second quarter of 2000 were reported as cash deals, up slightly from the 93 percent reported for the second quarter of 1999.
- ◆ Barter or trade deals accounted for 5 percent of Internet advertising revenues, down slightly from the second quarter of 1999. Package deal allocations (e.g., portion of a media buy that may include other traditional media such as TV or radio) accounted for less than one percent of total 2000 second-quarter revenues, down from one percent reported during the second quarter of 1999.
- ◆ The actual volume of non-cash deals is likely higher than the dollar activity reported and, similar to other media transactions, the valuation of non-cash Internet advertising deals remains subjective.

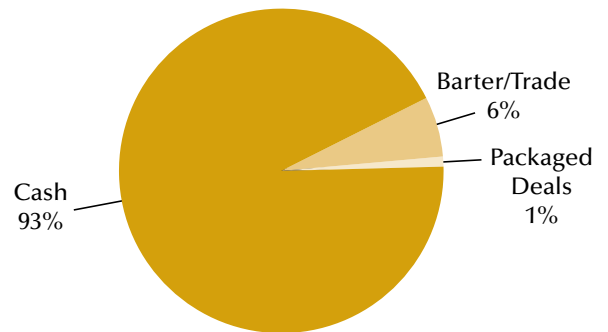
Internet Ad Revenues by Transactions

% of 2000 Second-Quarter Revenues



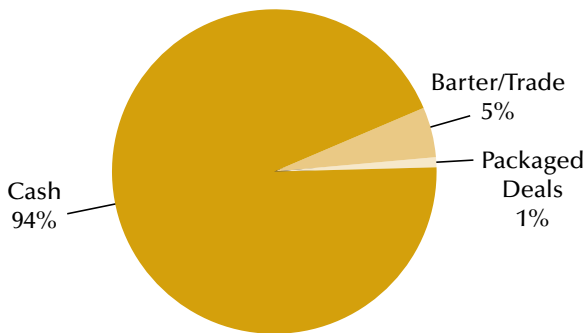
Total – \$2.1 billion

% of 1999 Second-Quarter Revenues



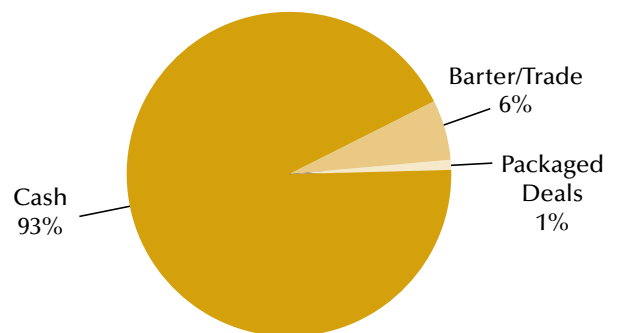
Total – \$934 million

% of 2000 First Six-Month Revenues



Total – \$4.1 billion

% of 1999 First Six-Month Revenues

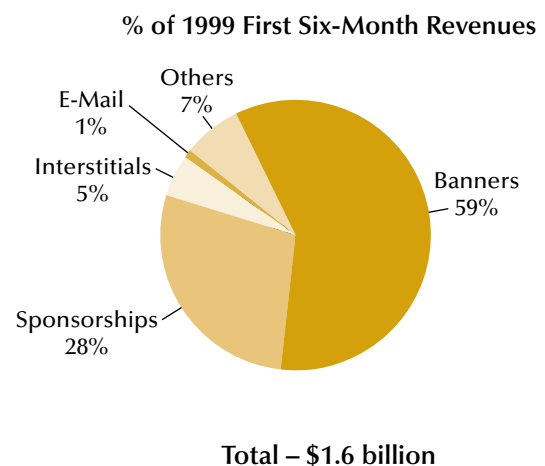
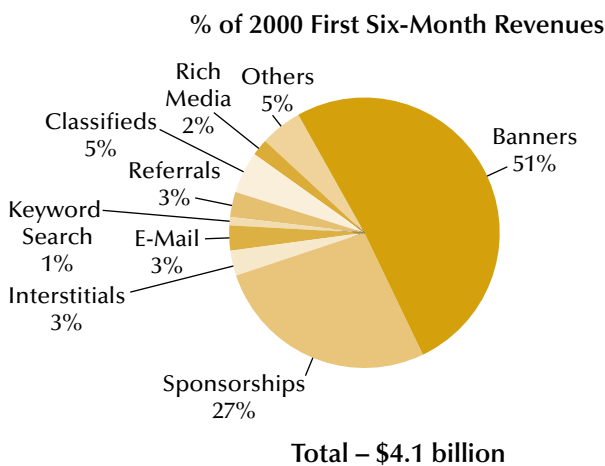
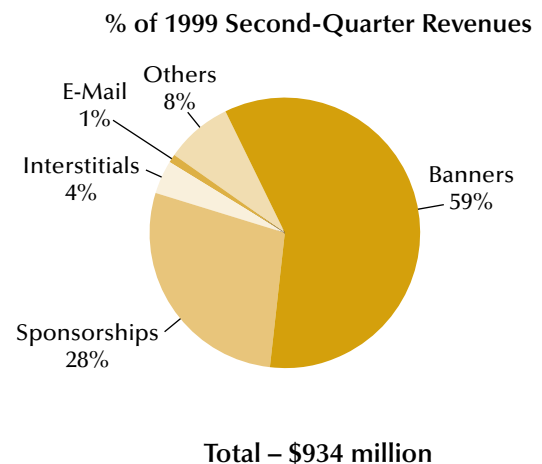
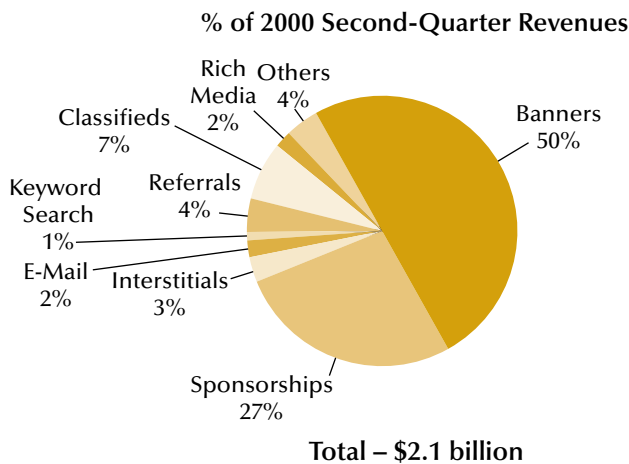


Total – \$1.6 billion

Banners and Sponsorships Remain the Predominant Advertising Formats

- ◆ Approximately 50 percent of total revenues were reported as ad banners during the second quarter of 2000, down from 59 percent reported in the second quarter of 1999.
- ◆ Content sponsorships generated 27 percent of revenues during the second quarter of 2000, down slightly from the 28 percent reported for the second quarter of 1999.
- ◆ Interstitials accounted for 3 percent of total 2000 second-quarter revenues, down from the 4 percent reported during the second quarter of 1999.
- ◆ E-mail accounted for 2 percent of 2000 second-quarter revenues, up from the 1 percent reported in the second quarter of 1999.
- ◆ The categorization of ad types were expanded in the first quarter of 2000, reflecting the growth in creative formats employed online. The types of ad formats being delineated include classifieds at 7 percent of 2000 second-quarter revenues, referrals (4 percent), rich media (2 percent), and keyword searches (1 percent). All other ad types accounted for the remaining 4 percent of 2000 second-quarter revenues.

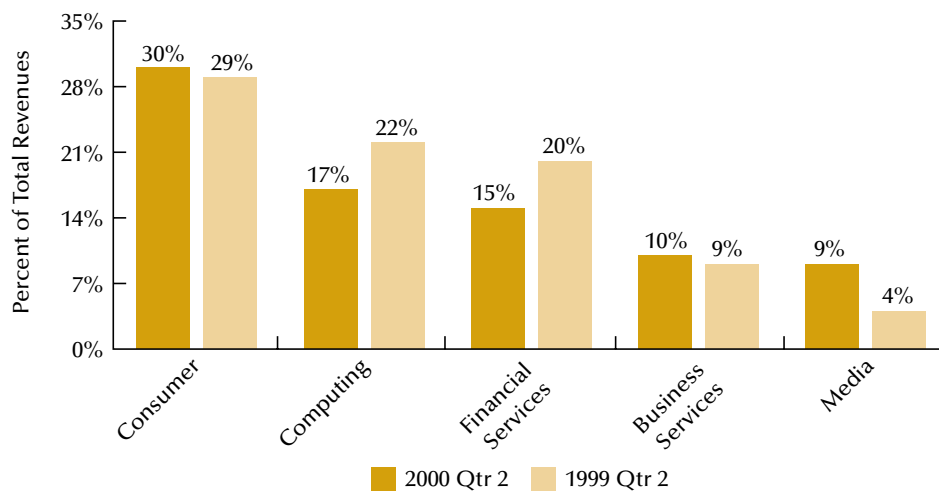
Internet Ad Revenues by Advertising Vehicle



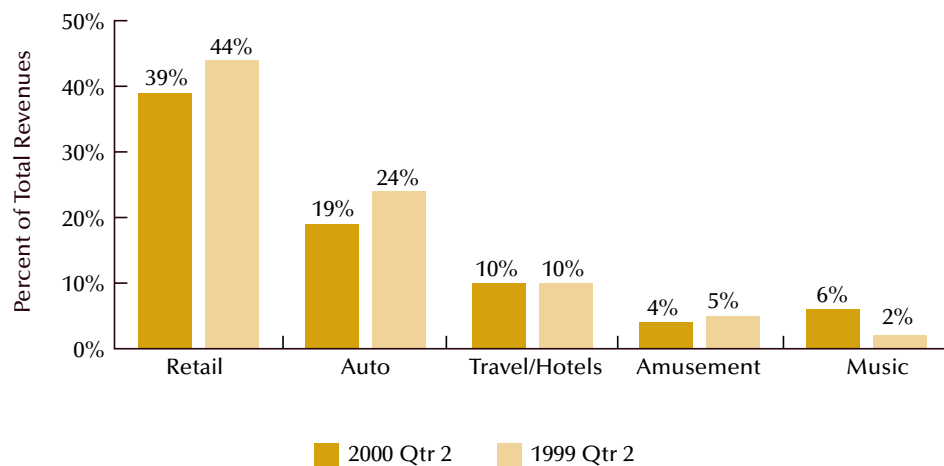
Five Industry Sectors Account for the Majority of Internet Advertising Revenues

- ◆ Consumer advertisers represent the largest category of spending, accounting for 30 percent of 2000 second-quarter revenues, up slightly from 29 percent reported in the second quarter of 1999.
- ◆ Computing advertisers represented the second-largest category, accounting for 17 percent of 2000 second-quarter revenues, down from 22 percent reported in the second quarter of 1999.
- ◆ Financial Services advertisers represented the third-largest category of spending at 15 percent of 2000 second-quarter revenues, down from 20 percent reported in the second quarter of 1999.
- ◆ Business Services companies contributed 10 percent of 2000 second-quarter revenues, up from 9 percent reported for the second-quarter of 1999, while Media companies accounted for 9 percent of 2000 second-quarter revenues, up sharply from 4 percent reported for the second quarter of 1999.
- ◆ Retail and Automotive companies accounted for more than half of 2000 second-quarter consumer-related revenues, followed by Travel/Hotels at 10 percent, Music at 6 percent and Amusement at 4 percent.

Internet Ad Revenues by Major Industry Category
2000 Q2 vs 1999 Q2



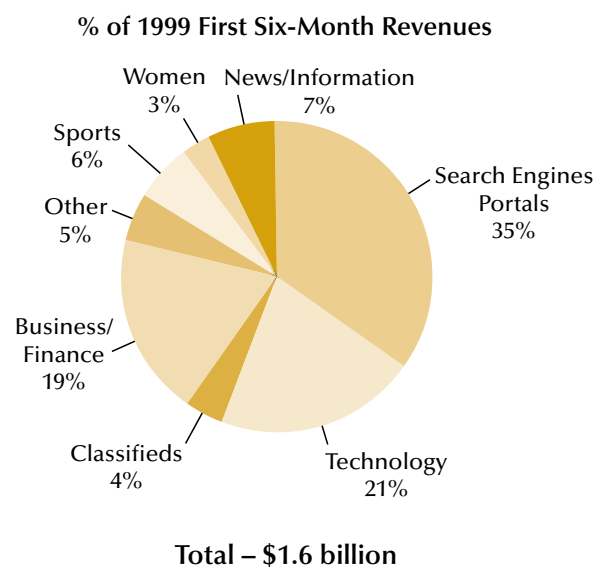
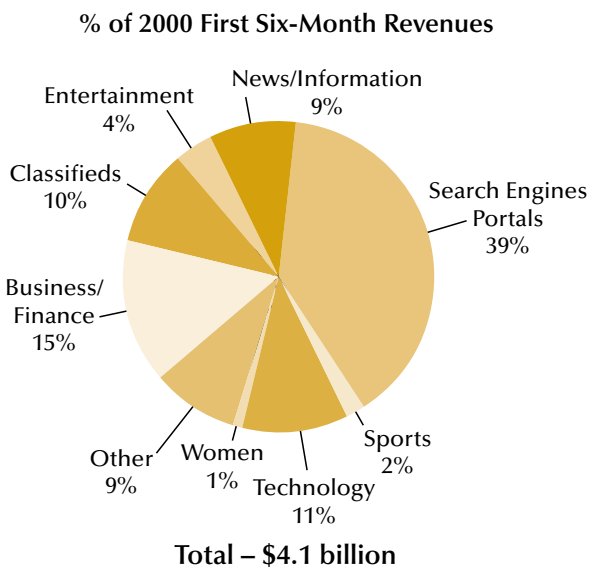
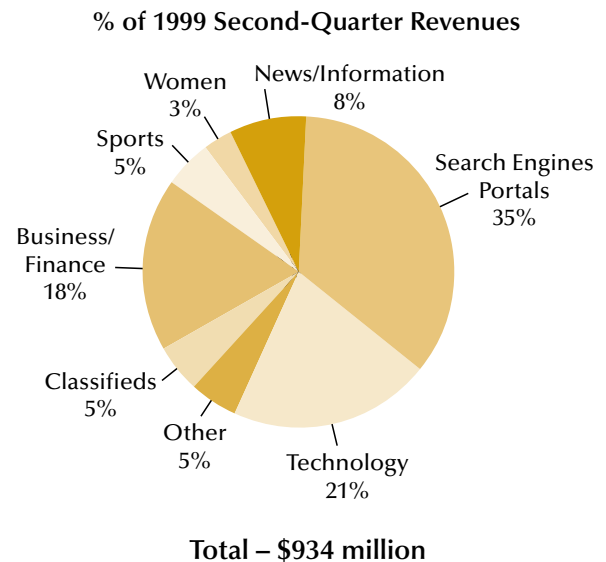
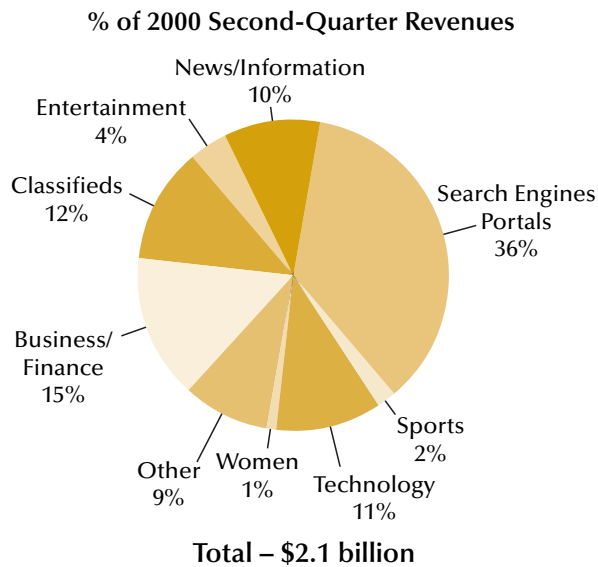
Internet Ad Revenues by Major Consumer Category
2000 Q2 vs 1999 Q2



Search Engines, Technology and Business/Financial are the Leading Content Genre

- ◆ Survey participants reported 36 percent of total 2000 second-quarter revenues were associated with search engine/portal content, compared to 35 percent reported for the 1999 second quarter.
- ◆ Business/Finance-related content represented the next largest category of publisher advertising revenues, at 15 percent of 2000 second-quarter revenues, down from 18 percent reported for the 1999 second quarter.
- ◆ Classifieds-related content rounded out the top three content categories at 12 percent of 2000 second-quarter revenues, up sharply from 5 percent reported for 1999 second quarter.
- ◆ Technology (11% of 2000 second-quarter revenues), news/information (10%), entertainment (4%), sports (2%), and women (1%) rounded out the top categories of leading content genre.

Internet Ad Revenues by Publisher Content Genre



Appendix

Definitions of Leading Industry Categories

The industry categories used in the IAB Internet Advertising Revenue Report were sourced from the U.S. Office of Budget and Management's Standard Industrial Classification Manual*.

Consumer Related – includes industry categories classified as consumer-related, including automotive, mail order/catalog, travel/hotel/airlines, amusement & recreation, apparel, drug stores, home furnishings/textiles, retail stores, cosmetics, jewelry, restaurants/fast food, household products, tobacco, toys, pet food/supplies and appliances.

Computing Products – includes hardware (computers, computer storage devices, and computer peripheral equipment), prepackaged software (operating, utility and applications programs), local area network systems and network systems integration, computer processing and data preparation, and data processing services.

Financial Services – includes commercial banks, credit agencies, personal credit institutions, consumer finance companies, loan companies, business credit institutions, and credit card agencies. Also includes companies engaged in the underwriting, purchase, sale or brokerage of securities and other financial contracts.

Business Services – includes accounting, engineering, research, management consulting services and other companies rendering services to business establishments on a contract or fee basis, such as advertising, credit reporting, mailing, news syndicates, photocopying and data processing services.

Telecommunications – includes point-to-point communications services, including voice and data communications, two-way mobile/cellular communications services, and other non-vocal message communications services (e.g., cablegram, electronic mail and facsimile).

New Media – includes consumer on-line service providers, Internet service providers (ISPs), on-line content/information providers, in addition to Web site developers, CD-ROM title developers, entertainment software, and other digital media companies.

**Survey participants reported results based on the 42 separate industry categories listed on the next page, which were used specifically for the IAB Internet Advertising Revenue Report. This is consistent with other relevant industry categorization sources that measure advertising spending by industry. For purposes of this report, PricewaterhouseCoopers classified a number of individual categories under "Consumer Related."*

Survey Scope and Methodology

The Internet Advertising Bureau (IAB) retained PricewaterhouseCoopers to establish a comprehensive standard for measuring the growth of Internet/on-line advertising revenues.

- ◆ The IAB Internet Advertising Revenue Report is an ongoing IAB mission to provide an accurate barometer of Internet advertising growth.
- ◆ To achieve differentiation from existing estimates and accomplish industry-wide acceptance, key aspects of the survey include:
 - Obtaining historical data directly from companies generating Internet/on-line advertising revenues;
 - Making the survey as inclusive as possible, encompassing all forms of Internet/on-line advertising, including Web sites, consumer on-line services and e-mail providers; and
 - Ensuring and maintaining a confidential process, only releasing aggregate data.

Methodology

- ◆ PricewaterhouseCoopers:
 - Compiles a database of industry participants with Internet/on-line advertising revenues averaging \$5,000 or more per month.
 - Conducts a quantitative mailing survey with leading industry players, including Web publishers, commercial on-line service providers, e-mail providers and other on-line media companies.
 - Requests and compiles several specific data items, including monthly gross commissionable advertising revenue by industry category and transaction.
 - Identifies non-participating companies and applies a conservative revenue estimate based on available public sources.
 - Analyzes the findings, identifies and reports key trends.

Survey Industry Categories

Aerospace	Drug stores	Office equipment/supplies
Amusement and recreational services	Education	Pet food/supplies
Apparel	Eye care/optical	Pharmaceuticals
Appliances	Filmed entertainment	Photographic equipment & supplies
Associations	Financial services	Professional sports, sporting & athletic goods
Audio & video equipment	Food	Publishing
Automotive	Government	Real estate
Beer/wine/liquor	Health care services	Restaurants/fast food
Beverages	Home furnishings/textiles	Retail stores/mail order/catalog
Business services	Household products/supplies	Telecommunications
Commercial printing	Insurance	Tobacco
Computing products (hardware/software)	Jewelry	Toys/games
Cosmetics/toiletries	Manufacturing	Travel/hotels/airlines
	Media	
	Music	
	New media	

Overall Report Guidance Provided by IAB Leadership

IAB Officers

Chair	Rich LeFurgy	Walden VC
Vice Chair	Richy Glassberg	Phase2Media
Co-Treasurers	Chris Neimeth	Real Media
	Jed Savage	MSN Networks
	Scott Schiller	Walt Disney Internet Group
Secretary	Kate Everett-Thorp	Lot21

IAB Board

CBS Sportsline USA	Mark Mariani
Classified Ventures	Kevin Granath
CNET, Inc.	Greg Mason
DeltaClick	Greg Stuart (Ex-Officio)
DoubleClick, Inc.	Beth Ann Eason
Egghead	Scott Reedy
Engage Media	Lynn Chitow Oakes
Excite@Home	Mort Greenberg
Modem Media	John Nardone
MSN Networks	Jed Savage
Netflix.com	Debbie Pinkston
Phase2Media	Richy Glassberg
New York Times Digital	Christine Cook
Unicast Communications	Dick Hopple
Walden VC	Rich LeFurgy
Walt Disney Internet Group	Scott Schiller
WinStar Interactive	John Durham
Women.com Networks	Gina Garrubbo

About the Internet Advertising Bureau

Founded in 1996, the IAB is the leading on-line advertising association with over 300 active members. Its activities include evaluating and recommending standards and practices, fielding research to document the effectiveness of the on-line medium and educating the advertising industry about the use of on-line advertising.

Current membership includes companies that are actively engaged in the sale of Internet advertising, with associate membership including companies that support advertising – interactive advertising agencies, measurement companies, research suppliers, technology suppliers, traffic companies and other organizations from related industries.

A global organization, the IAB has member chapters in various countries including Canada, Belgium, France, Germany, Holland, Italy, Switzerland and the United Kingdom, and is currently developing membership chapters in Asia and Latin America, as well as other countries in Europe. The IAB and the Internet Local Advertising & Commerce Association (ILAC) agreed to combine their organizations in July of 1998.

