

IAB Internet Advertising Revenue Report



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

1999 Third-Quarter Results
January 2000



Internet
Advertising
Bureau

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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 more than 200 companies representing over 1,500 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, 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 1999 Third-Quarter Highlights

Internet/online advertising revenues (“revenues”) surpassed the \$1.0 billion quarter for the first time, totaling \$1.2 billion for the third quarter of 1999, \$726 million or 148 percent growth over the 1998 third-quarter total of \$491 million. Revenues totaled \$2.8 billion for the first nine months of 1999, more than double the same period for 1998, and averaged over \$400 million per month during the third quarter of 1999. Based on historical trends, revenues are on pace to exceed \$4 billion in 1999.

Other trends underlying 1999 third-quarter and year-to-date results:

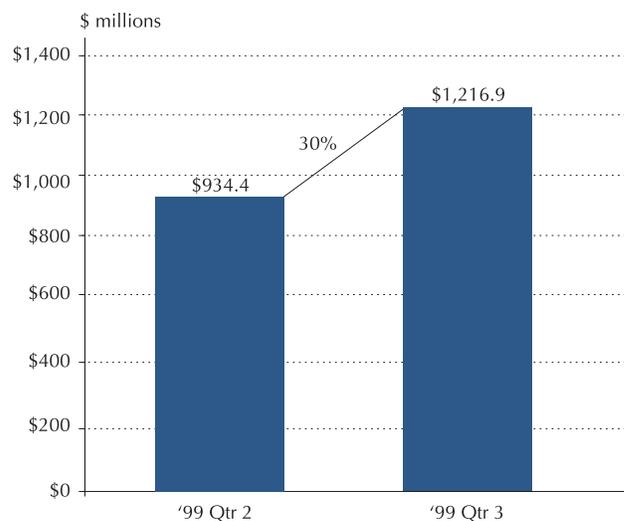
- ❖ **Revenue growth compares favorably to other industries** – revenues are on pace to increase nearly twenty-fold, from \$267 million reported in 1996 to more than \$4 billion in 1999. If Internet advertising revenues reach \$4 billion in 1999 (the fifth year of growth), it would compare favorably to other advertiser-supported industries: the television broadcast industry took 6 years to reach \$4 billion in advertising revenues, cable television 13 years, and radio over 30 years (adjusted for inflation).
- ❖ **Consumer advertisers leading the growth** – consumer brand advertisers represented the largest category of advertiser spending at 32 percent of 1999 third-quarter revenues, up from 27 percent reported a year ago. Financial services and business services increased as a percentage of total revenues during the past year, accounting for 19 percent and 5 percent respectively during the third quarter of 1999. Computing and telecom decreased as a percentage of total revenues, accounting for 21 percent and 6 percent respectively of total 1999 third quarter. Retail, auto and travel accounted for 75 percent of total consumer-related revenues for the third quarter of 1999, and all recorded improvement over the prior year period.
- ❖ **Banners and sponsorships remain the predominant advertising vehicles** – ad banners and sponsorships accounted for a combined 82 percent of 1999 third-quarter revenues, down slightly from 83 percent reported for the same period a year ago. Interstitials accounted for 4 percent of 1999 third-quarter revenues, down from 6 percent a year ago, while e-mail advertising doubled to 2 percent of 1999 third-quarter revenues. The “other” category (consisting primarily of rich media, keyword searches, classifieds and referral fees) rose to 12 percent of 1999 third-quarter revenues, up from 8 percent in the previous second quarter.
- ❖ **Internet advertising remains concentrated with leading publishers** – the 10 leading online publishers accounted for 72 percent of total 1999 third-quarter revenues, down 75 percent reported for the 1999 second quarter, and up from 70 percent reported for the third quarter of 1998. The 25 and 50 leading publishers accounted for 84 percent and 87 percent of 1999 third-quarter revenues respectively.

Detailed Findings

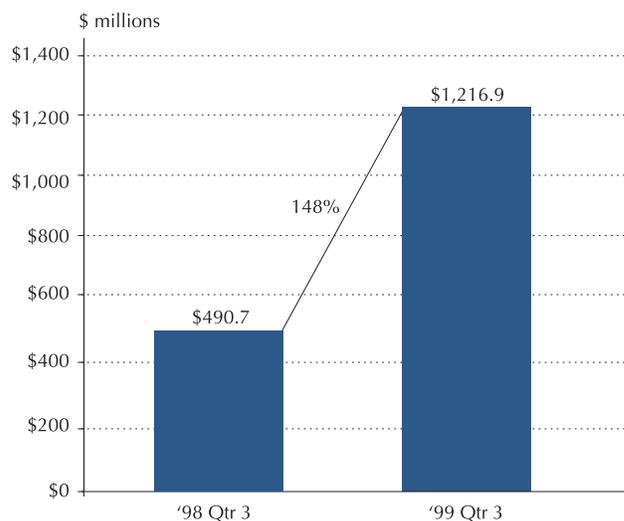
Internet/On-line Advertising Revenues Totaled \$1.2 Billion for the Third Quarter of 1999

- ❖ On-line publishers reported aggregate revenues totaling \$1,216.9 million for the 1999 third quarter, marking the 14th consecutive quarterly increase since reporting for the first quarter of 1996.
- ❖ Total 1999 third-quarter revenues were \$283 million or 30% higher than the second quarter of 1999, and \$726 million or 148 percent higher than the third quarter of 1998.
- ❖ Revenues averaged \$406 million per month during the third quarter of 1999, up \$95 million from the previous 1999 second-quarter average of \$311 million.

1999 Q3 vs 1999 Q2



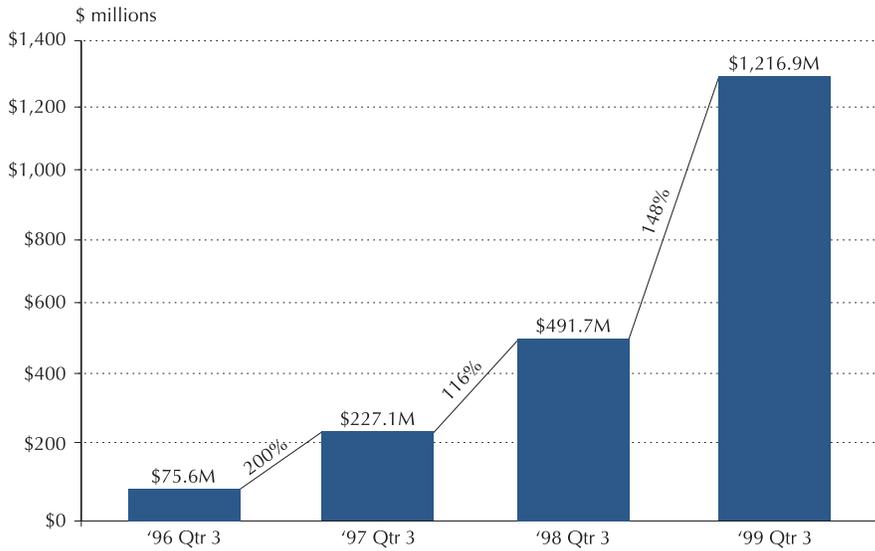
1999 Q3 vs 1998 Q3



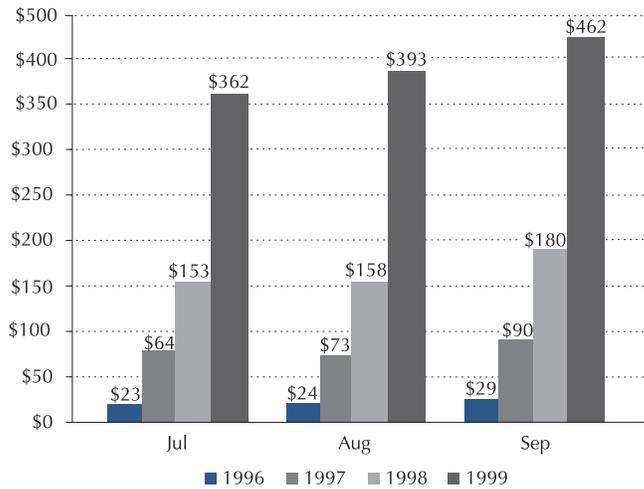
Historical Third-Quarter Revenue Trends

Third-quarter revenues have increased significantly on a year-over-year dollar basis during the past four years.

Third-Quarter \$ Revenue Comparisons – 1996 thru 1999



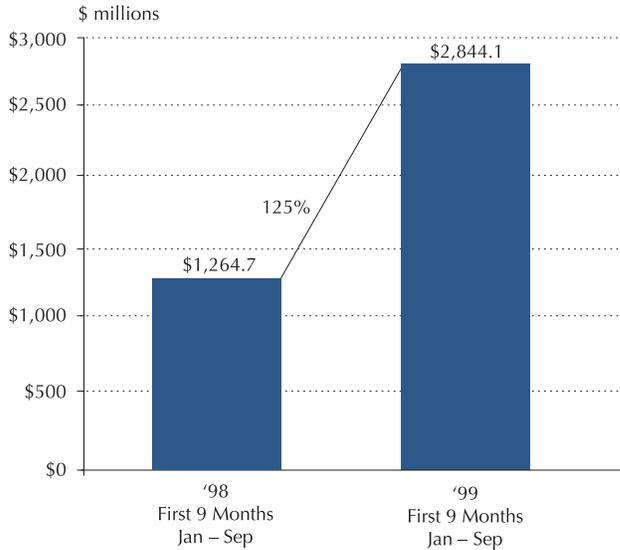
Third-Quarter Monthly \$ Revenue Comparisons – 1996 thru 1999



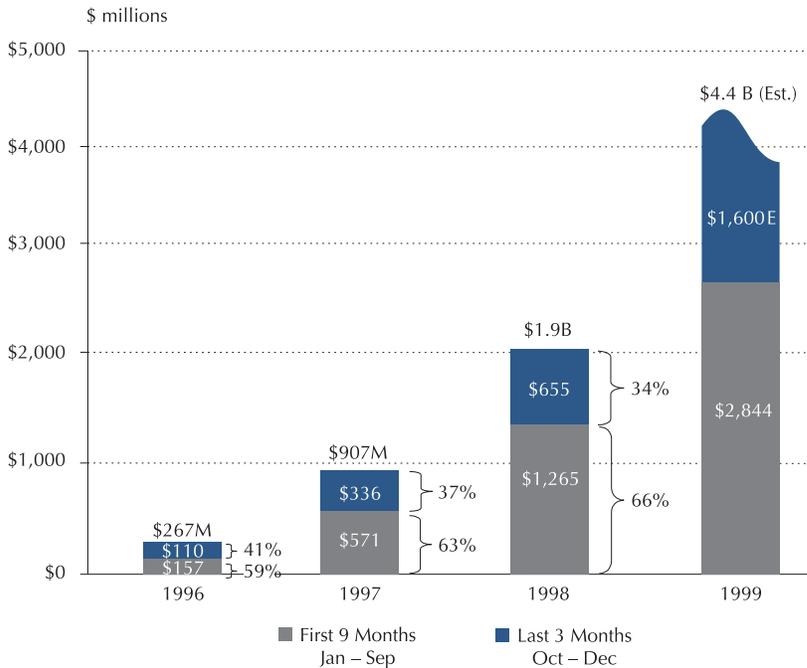
1999 First Nine-Month Revenues Totaled \$2.8 Billion

- ❖ Nine-month revenues through September 1999 totaled \$2.8 billion, \$1.6 billion or 125 percent higher than the same nine-month period for 1998.
- ❖ Revenues for the past four quarters (1998 Q4 – 1999 Q3) totaled \$3.5 billion.
- ❖ Using the seasonality data from prior years (1996 – 1998), 1999 year-to-date revenues of \$1.6 billion are on a \$4.4 billion annual run rate.

1999 First Nine Months vs 1998 First Nine Months



Nine-Month Revenue Growth Comparisons

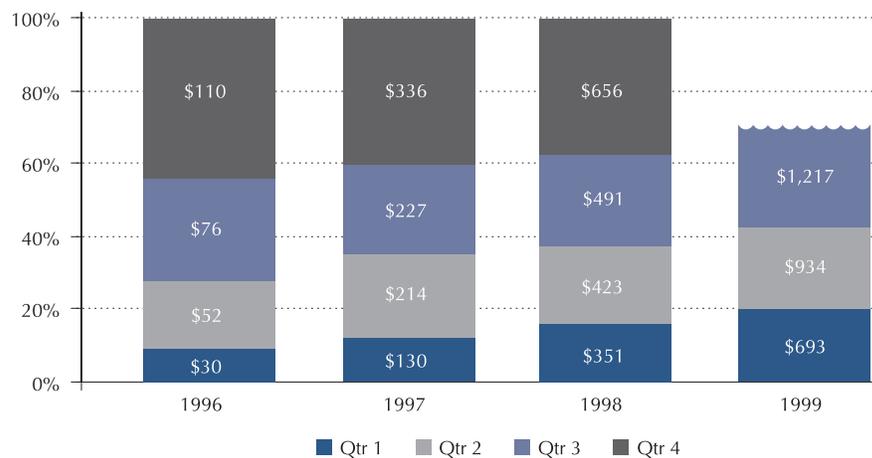


Revenues Experience the Strongest Percentage Growth in the Second and Fourth Quarters

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%

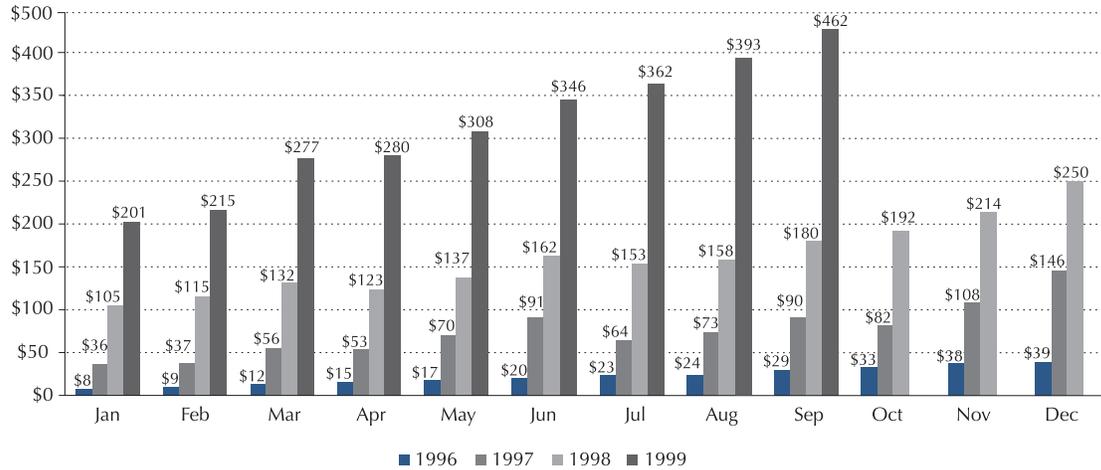
Quarterly Revenue Contributions



Monthly Revenues Continue to Post Significant Year-Over-Year Growth

- ❖ Monthly industry revenues averaged \$406 million during the third quarter of 1999.
- ❖ Revenues have averaged compound monthly growth of 6 percent between October 1998 and September 1999.
- ❖ Revenues totaled \$462 million for the month of September 1999, more than half the revenue total for all of 1997 (\$907 million).

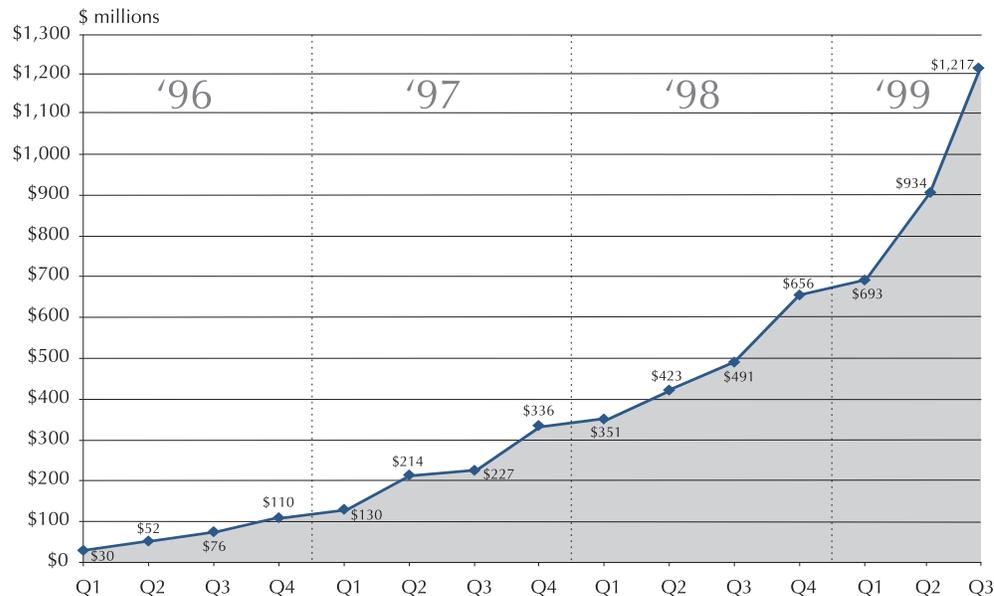
Monthly \$ Revenue Growth Comparisons



Revenues Continue to Exhibit Seasonality

- ❖ Quarterly industry revenues have exhibited a seasonal growth pattern during the past three years (e.g., strongest growth occurs during the second and fourth quarters, with the first and third quarters experiencing somewhat slower growth). However, stronger-than-expected growth for the third quarter during the past two years has smoothed over seasonality.
- ❖ The sheer growth and relative seasonal spending suggests the Internet is increasingly being factored into advertiser spending plans similar to print and broadcast media.

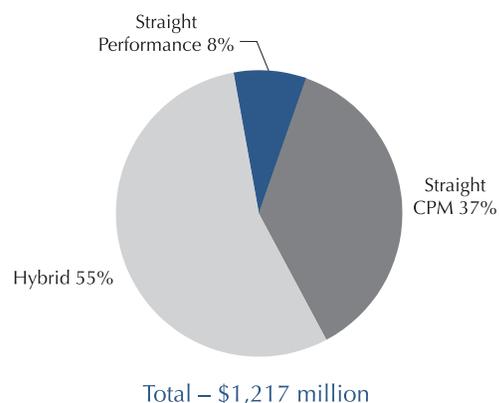
Quarterly \$ Revenue Growth Comparisons



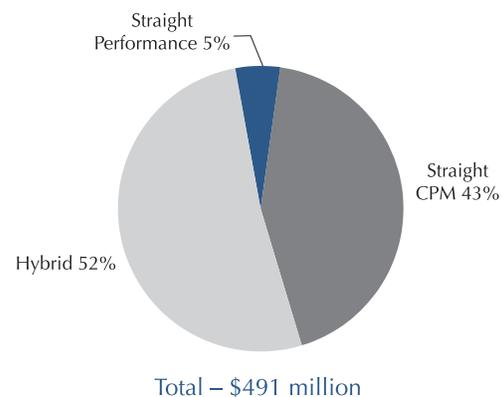
Over Half of Internet Advertising Revenues are Consistently Being Priced on a Hybrid Basis

- ❖ Survey participants reported 55 percent of 1999 third-quarter revenues were priced on a hybrid basis (e.g., mix of impression-based pricing plus performed-based compensation), up slightly from 52 percent reported for the third quarter of 1998.
- ❖ Approximately 37 percent of 1999 third-quarter revenues were priced on a straight CPM or impression basis (includes sponsorships), down from 43 percent reported for the third quarter of 1998.
- ❖ Eight percent of 1999 third-quarter revenues were priced on a straight performance (e.g., cost-per-click, sale, lead or straight revenue share) basis, almost double the 5 percent reported for the 1998 third quarter.

% of 1999 Third-Quarter Revenues



% of 1998 Third-Quarter Revenues



Revenues are Concentrated with Leading Publishers

- ❖ On-line advertising remains relatively concentrated at the top, with 10 leading publishers accounting for 72 percent of total revenues in the third quarter of 1999, up slightly from 70 percent reported for the third quarter of 1998.
- ❖ Trends in share of Internet advertising revenues suggest the strongest brands will continue to capture the largest percentage share of on-line advertising.
- ❖ The top 25 and top 50 publishers accounted for 84 and 87 percent of total 1999 third-quarter revenues respectively.

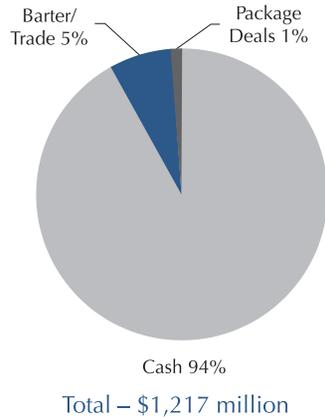
Total Share of Internet Advertising Revenues

	1997				1998				1999		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
10 Publishers	63%	69%	69%	67%	64%	67%	70%	71%	75%	75%	72%
25 Publishers	83%	86%	85%	76%	75%	80%	84%	86%	88%	86%	84%
50 Publishers	93%	93%	91%	83%	79%	85%	91%	92%	93%	90%	87%

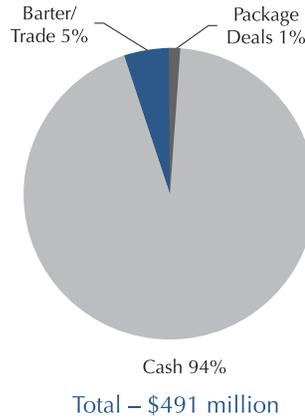
Cash Deals Remain the Dominant Transaction

- ❖ Showing no change from 1998 third quarter, approximately 94 percent of total advertising revenues generated in the third quarter of 1999 were reported as cash deals.
- ❖ Barter or trade deals accounted for 5 percent of Internet advertising revenues, while packaged deal allocations (e.g., portion of a media buy that may include other traditional media such as TV or radio or print) accounted for one percent of total 1999 third-quarter revenues.
- ❖ The actual volume of non-cash deals is likely higher than the dollar contribution indicates and, similar to other media transactions, the valuation of non-cash Internet advertising deals remains subjective.

% of 1999 Third-Quarter Revenues



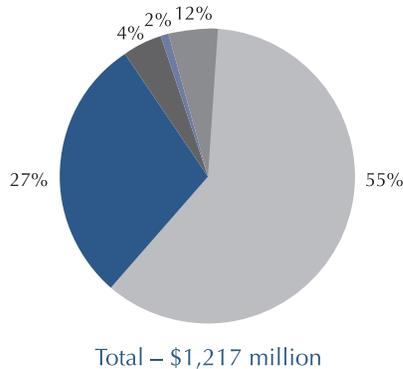
% of 1998 Third-Quarter Revenues



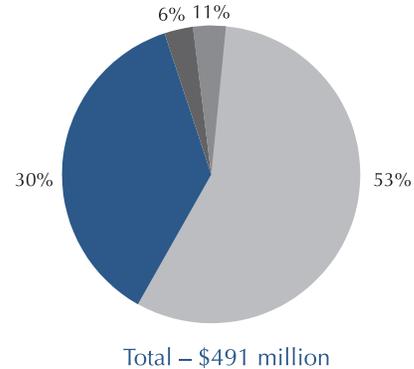
Banners and Sponsorships Remain the Predominant Advertising Vehicles

- ❖ Approximately 55 percent of total revenues were reported as ad banners during the third quarter of 1999, up slightly from 53 percent reported in the third quarter of 1998.
- ❖ Content sponsorships generated 27 percent of revenues during the third quarter of 1999, down from the 30 percent reported for the third quarter of 1998.
- ❖ Interstitials accounted for four percent of total 1999 third-quarter revenues, down from the six percent reported during the third quarter of 1998.
- ❖ E-mail (introduced in 1998 Q4) accounted for two percent of 1999 third-quarter revenues. The Other category (includes rich media, keyword searches, classifieds and referral fees) accounted for 12 percent of 1999 third-quarter revenues, up slightly from 11 percent reported in 1998 third quarters.

% of 1999 Third-Quarter Revenues



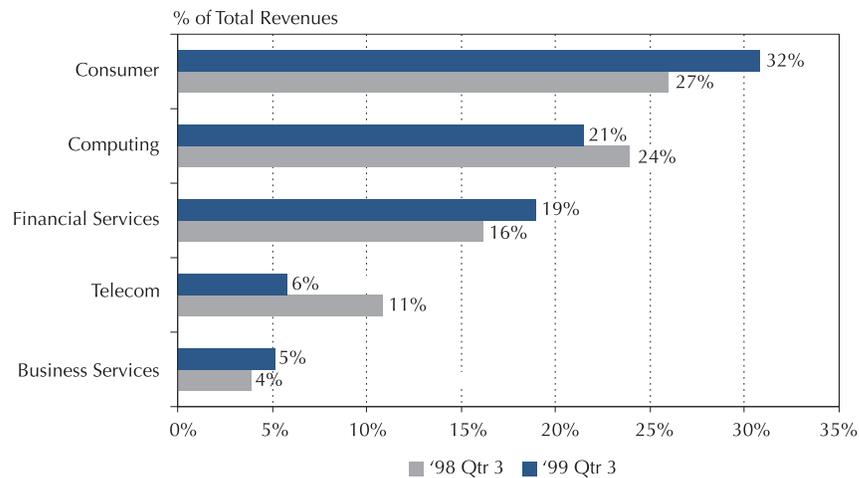
% of 1998 Third-Quarter Revenues



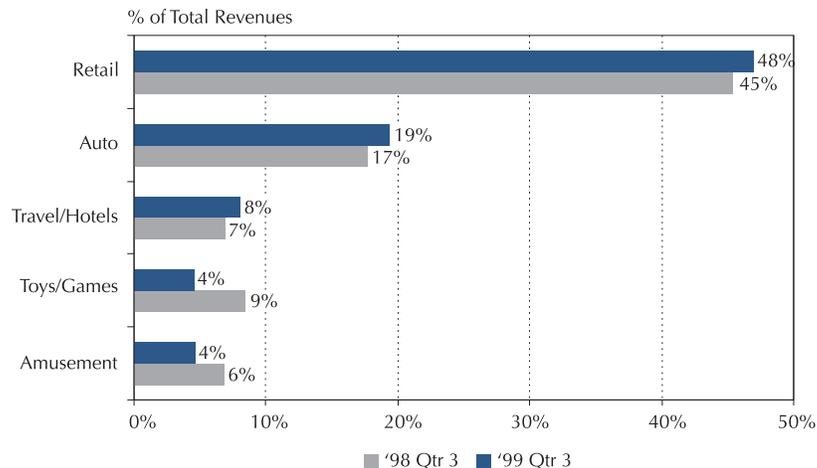
Five Industry Sectors Account for the Majority of Internet Advertising Revenues

- ❖ Consumer advertisers are increasingly representing the largest category of spending, accounting for 32 percent of 1999 third-quarter revenues, up from 27 percent reported in the third quarter of 1998.
- ❖ Computing advertisers represented the second-largest category of spending at 21 percent of 1999 third-quarter revenues, down from 24 percent reported in the third quarter of 1998.
- ❖ Financial services companies represented the third-largest category, accounting for 19 percent of 1999 third-quarter revenues, up from 16 percent reported in the third quarter of 1998.
- ❖ Business services companies contributed 5 percent of 1999 third-quarter revenues, up from 4 percent reported for the third-quarter of 1998, while Telecom companies accounted for 6 percent of 1999 third-quarter revenues, down from 11 percent reported for the third quarter of 1998.
- ❖ Retail and Automotive companies accounted for two thirds of 1999 third-quarter consumer-related revenues, followed by Travel/Hotels at 8 percent, Amusement and Toys/Games at 4 percent respectively.

Internet Ad Revenues by Industry Category



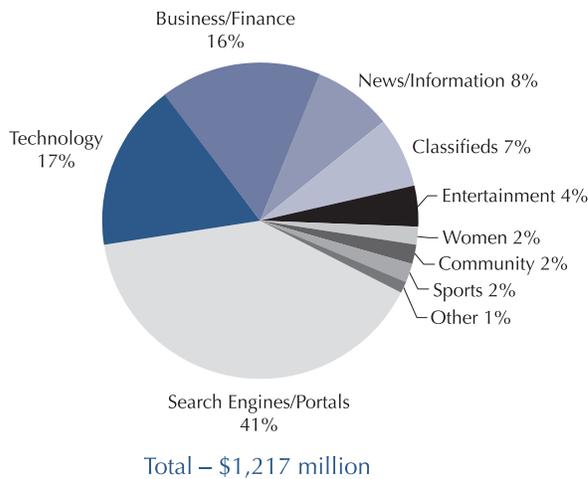
Internet Ad Revenues by Major Consumer Category



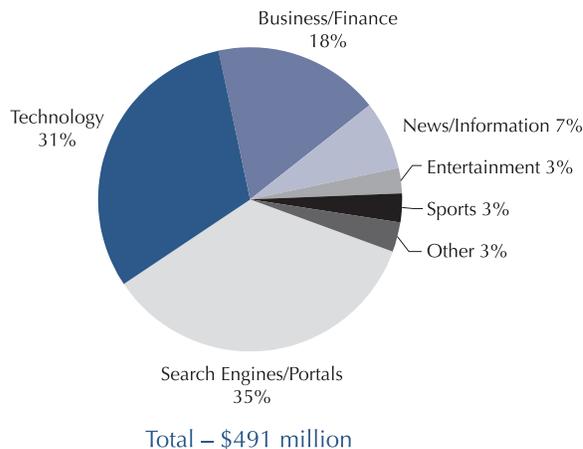
Search Engines, Technology and Business/Financial were the Leading Content Genre in 1999 Third Quarter

- ❖ Survey participants reported 41 percent of total 1999 third-quarter revenues were associated with search engine/portal content, compared to 35 percent reported for the 1998 third quarter.
- ❖ Technology-related content represented the second-largest category of publisher advertising revenues at 17 percent of 1999 third-quarter revenues, down from 31 percent reported for the 1998 third quarter.
- ❖ Business/financial-related content rounded out the top three content categories at 16 percent of 1999 third-quarter revenues, down slightly from 18 percent reported for 1998 third quarter.
- ❖ News/information (8% of 1999 third-quarter revenues), classifieds (7%), entertainment (4%), women (2%), sports (2%) and community (2%) round out the top categories of leading content genre.

1999 Third-Quarter Ad Revenues by Publisher Content Genre



1998 Third-Quarter 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 – Establishments primarily engaged in rendering services to business establishments on a contract or fee basis, such as advertising, credit reporting, collection of claims, mailing, reproduction, stenographic, news syndicates, photocopying, duplicating, data processing, services to buildings, and help supply services, in addition to engineering, accounting, research, management and related services.

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

**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 Industry Categories

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

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, and e-mail providers.
 - 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.

Overall Report Guidance Provided by IAB Leadership

IAB Officers

Chair	Rich LeFurgy	LeFurgy.com, The Walden Group
Vice Chair	Susan Bratton	Excite@Home
Co-Treasurers	Chris Neimeth	Real Media
	Jed Savage	MSN Networks
	Scott Schiller	GO Network
Secretary	Kate Everett-Thorp	Lot21 Interactive

IAB Board

CBS Sportsline USA	Mark Mariani
Classified Ventures	Kevin Granath
CNET, Inc.	Jason Fischel
DoubleClick, Inc.	Beth Ann Eason
Egghead	Debbie Pinkston
Excite@Home	Susan Bratton
GO Network	Scott Schiller
LeFurgy.com, The Walden Group	Rich LeFurgy
Modem Media.Poppe Tyson, Inc.	John Nardone
MSN Networks	Jed Savage
Phase2Media	Richy Glassberg
Times Company Digital	Christine Cook
Webrite, Inc.	Greg Stuart
WinStar Interactive	Bobbie Halfin
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 countries including Canada, Belgium, France, Germany, Holland, Italy, Switzerland and the United Kingdom, and is currently developing membership countries 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.

PricewaterhouseCoopers New Media Group

PricewaterhouseCoopers (www.pwcglobal.com), the world's largest professional services organization, helps its clients build value, manage risk and improve their performance. Drawing on the talents of more than 150,000 people in 150 countries, PricewaterhouseCoopers provides a full range of business advisory services to leading global, national and local companies and to public institutions.

PricewaterhouseCoopers' New Media Group was the first practice of its kind at a Big Five firm. Currently located in New York, Los Angeles, Boston, Seattle and the Bay Area, our New Media Group includes accounting, tax and consulting professionals who have broad and deep experience in the three areas that converge to form new media: advanced telecommunications, enabling software and content development/distribution.

Our services to the new media industry include:

- ❖ Management consulting
- ❖ Business assurance services
- ❖ Web audience measurement auditing
- ❖ Web advertising delivery auditing
- ❖ Privacy policy structuring, attestation and compliance
- ❖ M&A assistance
- ❖ Tax planning and compliance
- ❖ Capital sourcing and IPO assistance
- ❖ Employee benefits and executive compensation packages

PricewaterhouseCoopers is a licensed CPA WebTrust auditor, a designated TRUSTe auditor, and the leading service provider in the area of Web Advertising Delivery Auditing.

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