

# *IAB Internet Advertising Revenue Report*



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

2000 First-Quarter Results  
August 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 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, 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  
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PricewaterhouseCoopers

Pete Petrusky  
New Media Group Director  
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# Executive Summary

## IAB Internet Advertising Revenue Report 2000 First-Quarter Highlights

Internet/on-line advertising revenues ("revenues") totaled \$1.95 billion in the first quarter of 2000, a 10 percent increase over the 1999 fourth quarter, and a 182 percent increase over the first quarter of 1999.

Key trends underlying 2000 first-quarter results:

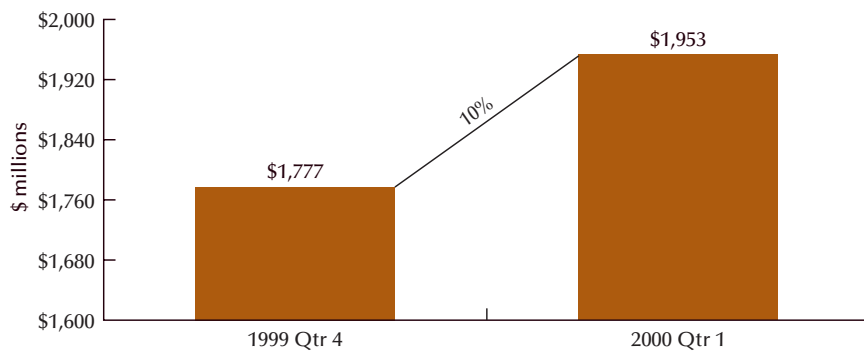
- ◆ **First-Quarter Revenues Higher Than Usual** – revenues totaled nearly \$2 billion for the first quarter of 2000, a surprising 10 percent increase over the previous 1999 fourth-quarter total of \$1.8 billion. First quarter revenues last posted double-digit percentage growth (over preceding fourth quarter) during the first quarter of 1997, and over a considerably smaller revenue base. These results counter the relative seasonality Internet advertising revenues have exhibited since 1997, where revenues typically post the strongest growth in the second and fourth quarters. The first quarter generally is weaker as consumers typically purchase less following the holiday spending blitz, and companies focus more on direct marketing.
- ◆ **Revenues On Pace for Another Record Year** – the nearly \$2 billion reported for the first quarter promises another record year of growth for 2000. The first-quarter total exceeds the full-year revenue total for 1998 (\$1.92 billion), and represents more than 40 percent of the \$4.6 billion reported last year.
- ◆ **Consumer Advertisers Continue to Lead Growth** – consumer advertisers continue to represent the largest category of advertiser spending at 31 percent of 2000 first-quarter revenues, up from 27 percent reported for the first quarter of 1999, and no change from the fourth-quarter of 1999. Financial services, the second-largest category, accounted for 15 percent of 2000 first-quarter revenues, down from 21 percent and 17 percent reported in the first and fourth quarters of 1999 respectively. Retail companies continue to represent the largest consumer advertisers, accounting for 42 percent of consumer-related advertising in the first quarter of 2000, down from 46 percent reported in the first quarter of 1999.
- ◆ **Publishers and Advertisers Continue to Favor Hybrid Pricing** – hybrid pricing (combination of impression-based pricing plus performance-based compensation) accounted for 48 percent of total revenues during the first quarter of 2000, down from 51 percent reported in the first quarter of 1999. Straight impression-based pricing accounted for 42 percent of 2000 first-quarter revenues, down from 43 percent reported in the first quarter of 1999. Straight performance deals registered the first double-digit percentage level, accounting for 10 percent of 2000 first-quarter revenues, up from 6 percent in the 1999 first quarter.
- ◆ **Internet Advertising Remains Concentrated** – the 10 leading on-line publishers accounted for 69 percent of total 2000 first-quarter revenues, down from the 70 percent reported in the fourth quarter of 1999. The next 15 companies ranked by revenue size (ranked 11 through 25) accounted for 13 percent of total revenues in the first quarter of 2000, down from 15 percent reported for the fourth quarter of 1999.

# Detailed Findings

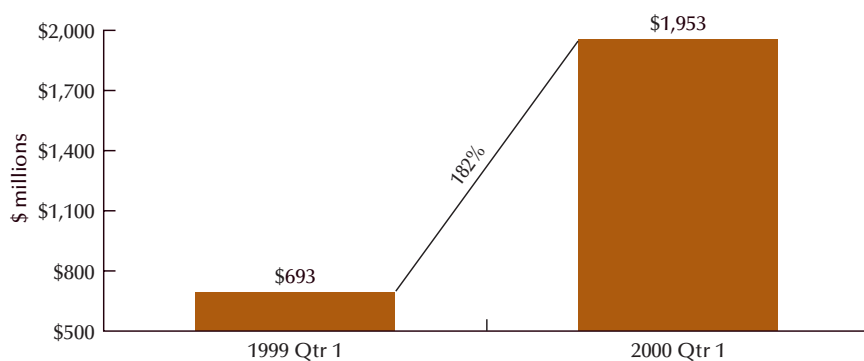
## Internet/On-line Advertising Revenues Totaled Nearly \$2.0 Billion for the First Quarter of 2000

- ◆ On-line publishers reported aggregate revenues totaling nearly \$2.0 billion for the 2000 first quarter, marking the 16<sup>th</sup> consecutive quarterly increase since reporting for the first quarter of 1996.
- ◆ Total 2000 first-quarter revenues were \$176 million or 10% higher than the fourth quarter of 1999, and \$1.3 billion or 182 percent higher than the first quarter of 1999.

2000 Q1 vs 1999 Q4



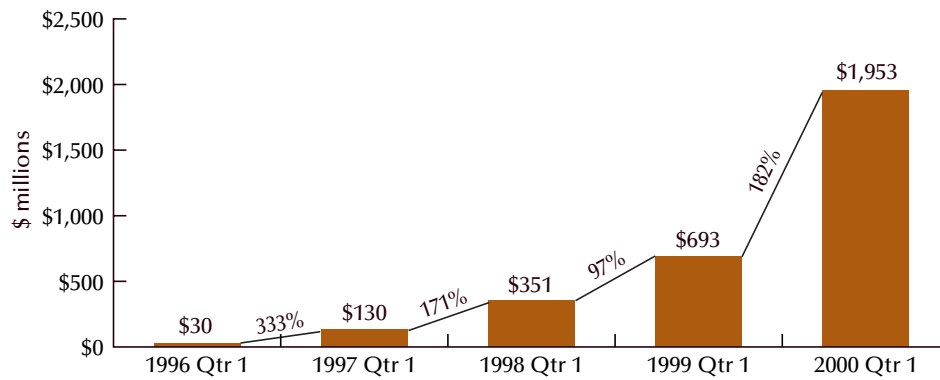
2000 Q1 vs 1999 Q1



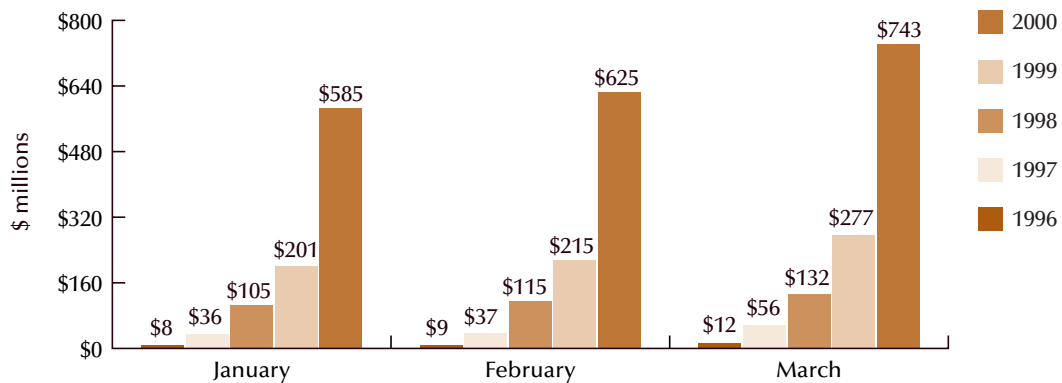
## Historical First-Quarter Revenue Trends

- ◆ First-quarter revenues for 2000 reported the highest year-over-year percentage increase since 1997, when first quarter revenues increased 333 percent over a considerably smaller revenue base in the first quarter of 1996.
- ◆ Revenues averaged \$651 million per month during the first quarter of 2000, compared to the 1999 fourth-quarter average of \$593 million, and the 1999 first-quarter average of \$231 million.

First-Quarter \$ Revenue Comparisons - 1996 thru 2000



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



## 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%	
<b>Total 1996</b>	<b>\$267</b>		
1Q97	\$130	18%	333%
2Q97	\$214	66%	313%
3Q97	\$227	6%	200%
4Q97	\$336	48%	205%
<b>Total 1997</b>	<b>\$907</b>		<b>239%</b>
1Q98	\$351	5%	171%
2Q98	\$423	20%	97%
3Q98	\$491	16%	116%
4Q98	\$656	34%	95%
<b>Total 1998</b>	<b>\$1,920</b>		<b>112%</b>
1Q99	\$693	6%	97%
2Q99	\$934	35%	121%
3Q99	\$1,217	30%	148%
4Q99	\$1,777	46%	171%
<b>Total 1999</b>	<b>\$4,621</b>		<b>141%</b>
1Q00	\$1,953	10%	182%

## Revenues are Concentrated with Leading Publishers

- ◆ On-line advertising remains concentrated with the 10 leading publishers, which accounted for 69 percent of total revenues in the first quarter of 2000, down slightly from 70 percent reported for the fourth quarter of 1999.
- ◆ The next 15 companies ranked by revenue size (11 through 25) accounted for 13 percent of total revenues in the first quarter of 2000, down from 15 percent reported for the fourth quarter of 1999.
- ◆ The next 25 companies (26 through 50) accounted for 9 percent of total revenues in the first quarter of 2000, no change from the fourth quarter of 1999.

### Total Share of Internet Advertising Revenues

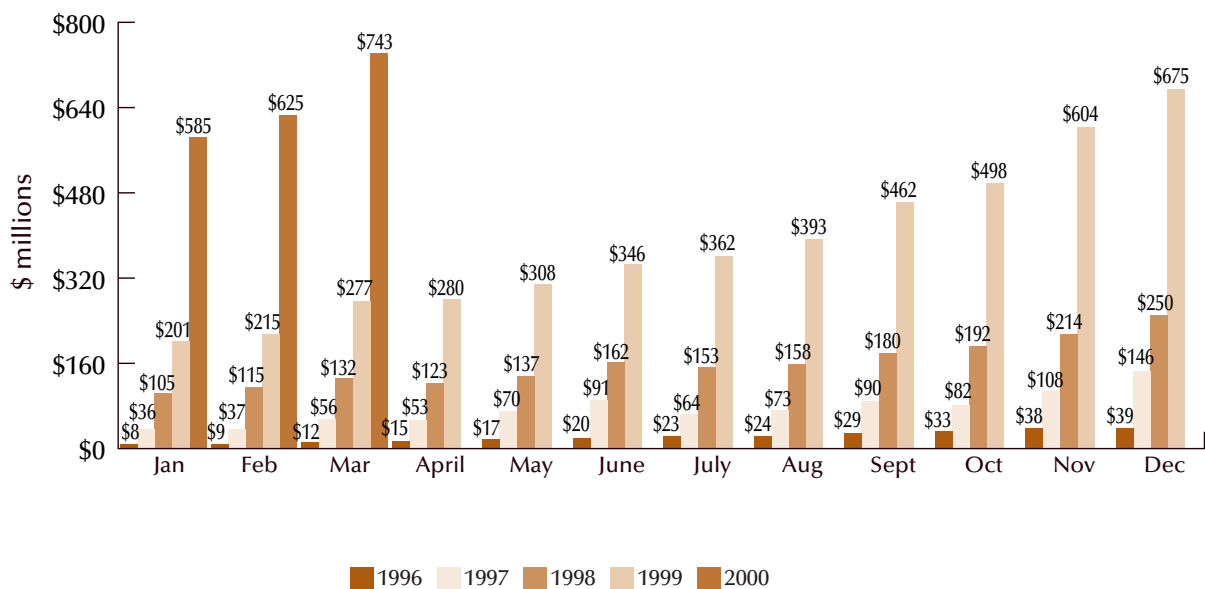
	1997				1998				1999				2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
10 Publishers	63%	69%	69%	67%	64%	67%	70%	71%	75%	75%	72%	70%	69%			
25 Publishers	83%	86%	85%	76%	75%	80%	84%	86%	88%	86%	84%	85%	82%			
50 Publishers	93%	93%	91%	83%	79%	85%	91%	92%	93%	90%	87%	94%	91%			



## Monthly Revenues Continue to Post Seasonal Growth

- ◆ Monthly industry revenues averaged \$651 million during the first quarter of 2000.
- ◆ Revenues have averaged compound monthly growth of 9 percent between April 1999 and March 2000.
- ◆ Revenues totaled \$743 million for the month of March 2000, nearly triple the total for March 1999.

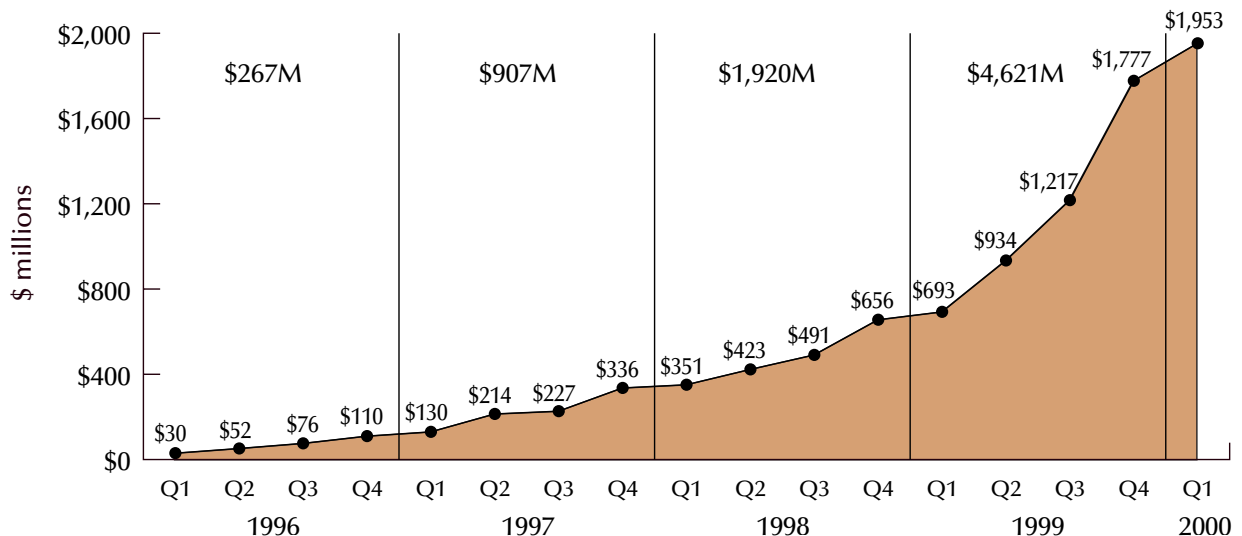
### Monthly \$ Revenue Growth Comparisons



## Revenues Continue to Exhibit Seasonality

- ◆ Quarterly industry revenues continue to exhibit a seasonal growth pattern during the first quarter of 2000 (e.g., strongest growth occurs during the second and fourth quarters).
- ◆ First quarter revenues in 2000 nearly posted double-digit percentage growth over the previous fourth quarter of 1999, reflecting much stronger growth versus comparable quarters during the previous two years.

### Quarterly \$ Revenue Growth Comparisons

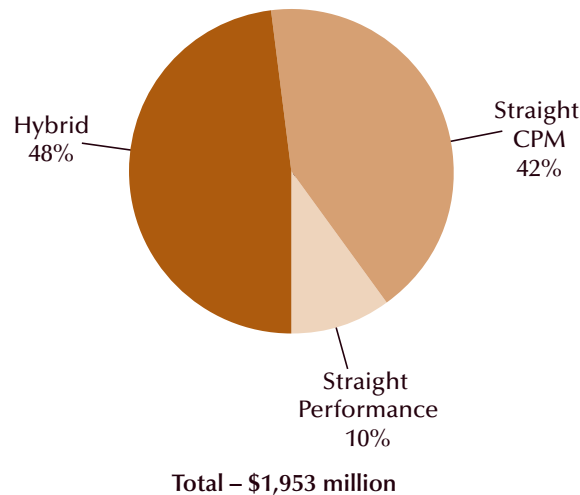


## Hybrid Deals Continue to Lead Internet Advertising Pricing Models

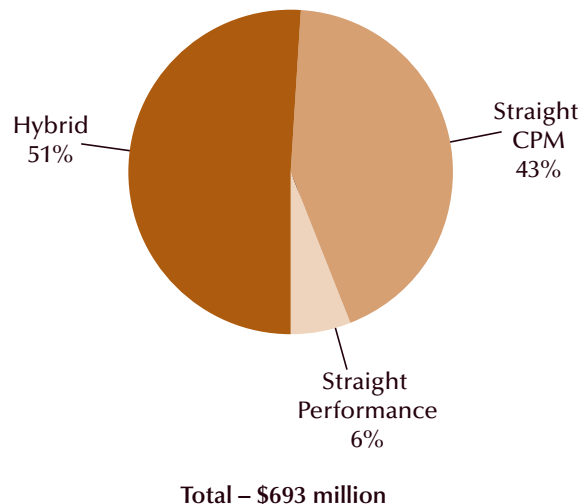
- ◆ Survey participants reported 48 percent of 2000 first-quarter revenues were priced on a hybrid basis (e.g., mix of impression-based pricing plus performed-based compensation), down slightly from 51 percent reported for the first quarter of 1999.
- ◆ Approximately 42 percent of 2000 first-quarter revenues were priced on a straight CPM or impression basis (includes sponsorships), down slightly from 43 percent reported for the first quarter of 1999.
- ◆ Ten percent of 2000 first-quarter revenues were priced on a straight performance basis (e.g., cost-per-click, sale, lead or straight revenue share), up considerably from the 6 percent reported for the 1999 first quarter.

### Internet Ad Revenues by Pricing Model

% of 2000 First-Quarter Revenues



% of 1999 First-Quarter Revenues

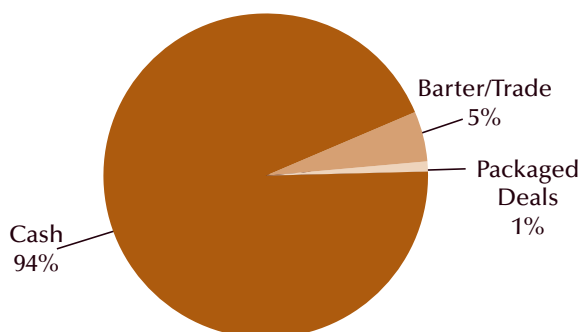


## Overwhelming Number of Revenue Transactions are Cash-Based

- ◆ Approximately 94 percent of total advertising revenues generated in the first quarter of 2000 were reported as cash deals, up slightly from the 92 percent reported for first quarter of 1999.
- ◆ 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 2000 first-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.

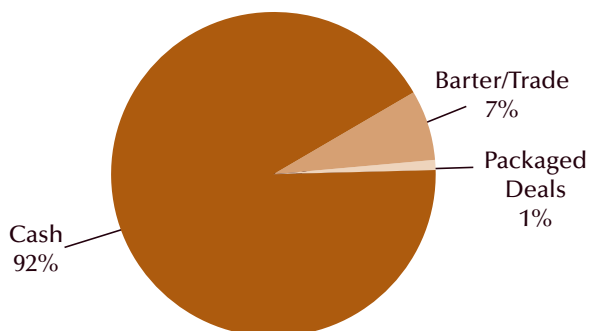
### Internet Ad Revenues by Transactions

% of 2000 First-Quarter Revenues



Total – \$1,953 million

% of 1999 First-Quarter Revenues

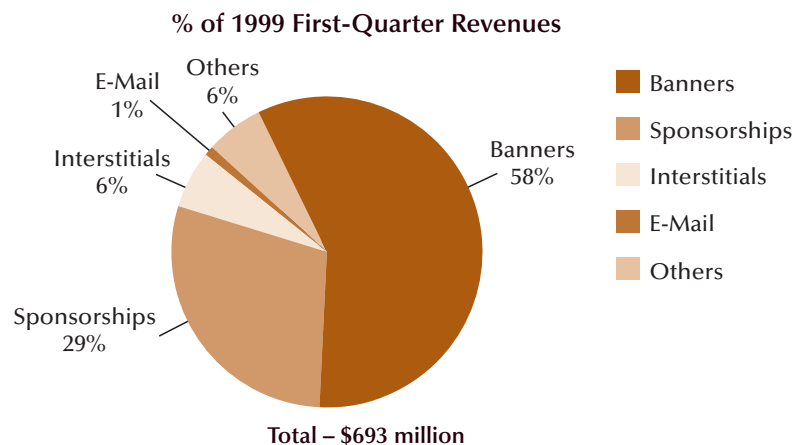
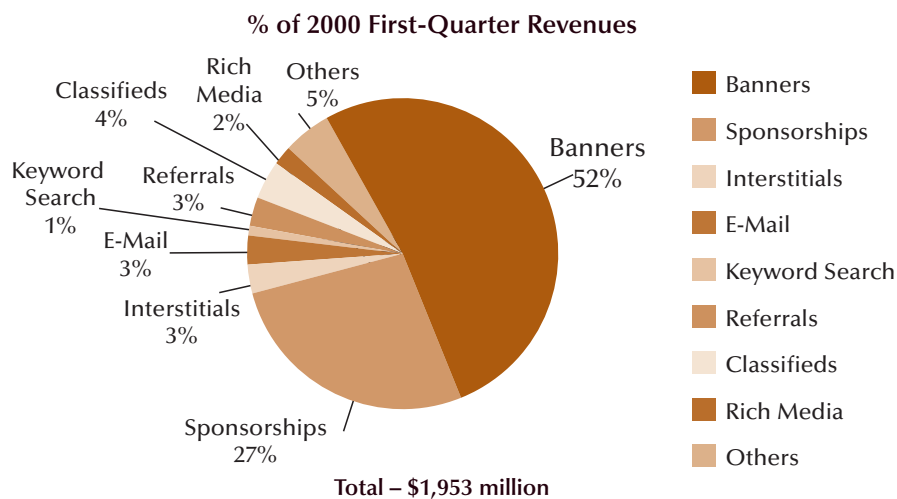


Total – \$693 million

## Banners and Sponsorships Remain the Predominant Advertising Formats

- ◆ Approximately 52 percent of total revenues were reported as ad banners during the first quarter of 2000, down from 58 percent reported in the first quarter of 1999.
- ◆ Content sponsorships generated 27 percent of revenues during the first quarter of 2000, down slightly from the 29 percent reported for the first quarter of 1999.
- ◆ Interstitials accounted for three percent of total 2000 first-quarter revenues, down from the six percent reported during the first quarter of 1999.
- ◆ E-mail accounted for three percent of 2000 first-quarter revenues, up from the one percent reported in the first quarter of 1999.
- ◆ The categorization of ad types were expanded, reflecting the growth in creative formats employed online. The types of ad formats being delineated for the first time include classifieds at 4 percent of 2000 first-quarter revenues, referrals (3 percent), rich media (2 percent), and keyword searches (1 percent). All other ad types accounted for 5 percent of the total.

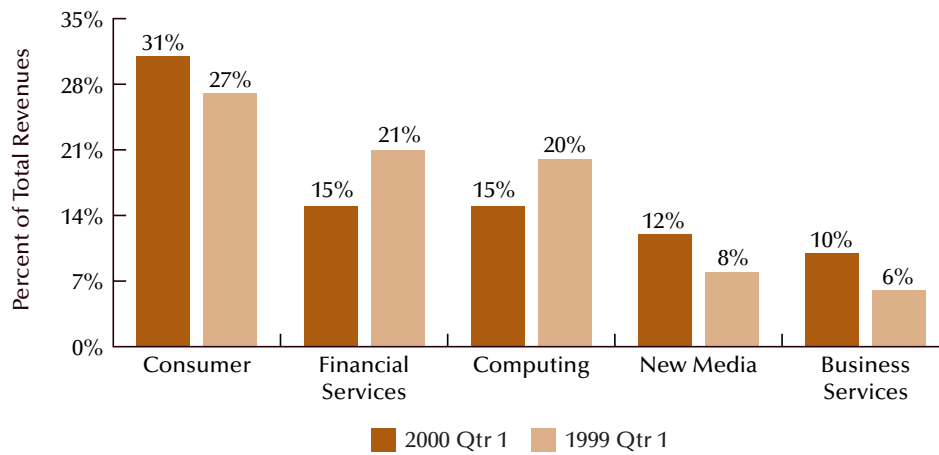
### Internet Ad Revenues by Advertising Vehicle



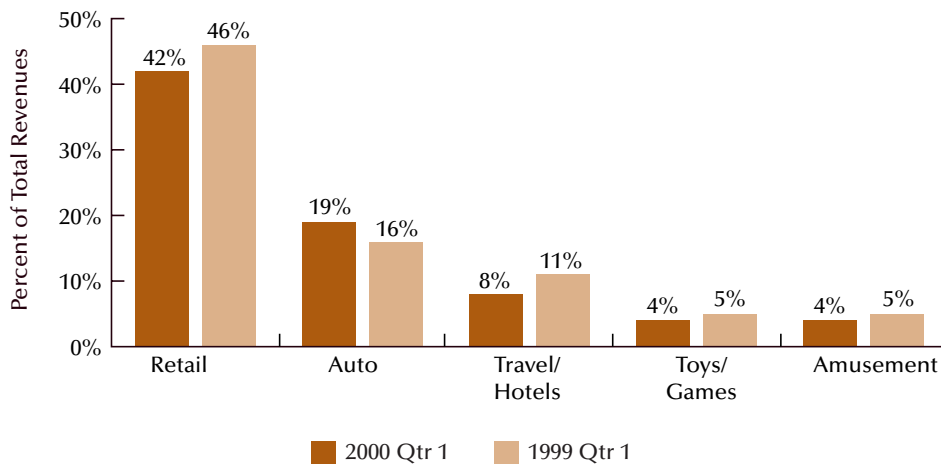
## Five Industry Sectors Account for the Majority of Internet Advertising Revenues

- ◆ Consumer advertisers represent the largest category of spending, accounting for 31 percent of 2000 first-quarter revenues, up from 27 percent reported in the first quarter of 1999.
- ◆ Financial Services and computing advertisers represented the next largest categories of spending, each at 15 percent of 2000 first-quarter revenues, down from 21 percent and 20 percent reported for the 1999 first quarter, respectively.
- ◆ New Media companies contributed 12 percent of 2000 first-quarter revenues, up from 8 percent reported for the first-quarter of 1999, while Business Services companies accounted for 10 percent of 2000 first-quarter revenues, up from 6 percent reported for the first quarter of 1999.
- ◆ Retail and Automotive companies accounted for almost two thirds of 2000 first-quarter consumer-related revenues, followed by Travel/Hotels at 8 percent, and Toys/Games and Amusement both at 4 percent.

Internet Ad Revenues by Major Industry Category  
2000 Q1 vs 1999 Q1



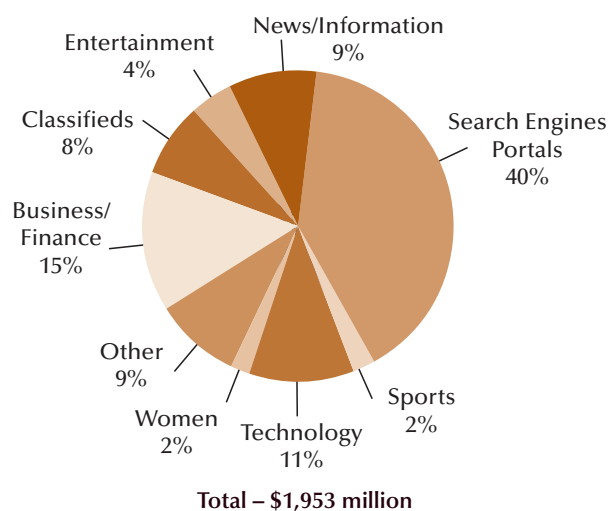
Internet Ad Revenues by Major Consumer Category  
2000 Q1 vs 1999 Q1



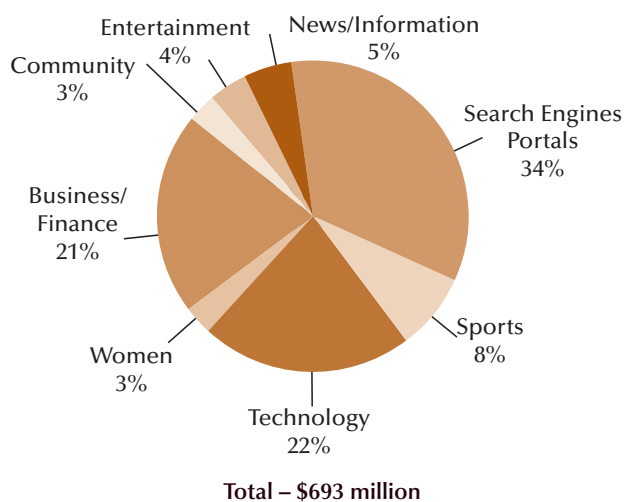
## Search Engines, Technology and Business/Financial are the Leading Content Genre

- ◆ Survey participants reported 40 percent of total 2000 first-quarter revenues were associated with search engine/portal content, compared to 34 percent reported for the 1999 first-quarter.
- ◆ Business/Finance-related content represented the second largest category of publisher advertising revenues at 15 percent of 2000 first-quarter revenues, down from 21 percent reported for the 1999 first quarter.
- ◆ Technology-related content rounded out the top three content categories at 11 percent of 2000 first-quarter revenues, down from 22 percent reported for 1999 first quarter.
- ◆ News/Information (9% of 2000 first-quarter revenues), classifieds (8%), entertainment (4%), sports (2%) and women (2%) round out the top categories of leading content genre.

**Internet Ad Revenues by Publisher Content Genre  
% of 2000 First-Quarter Revenues**



**Internet Ad Revenues by Publisher Content Genre  
% of 1999 First-Quarter Revenues**



# 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 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).

**New Media** – includes design, development, production and distribution of digital media, including consumer on-line services, Internet service providers, Web site developers, CD-ROM title developers, entertainment software, and other companies involved in the licensing, distribution and publishing of creative products in a digital environment.

*\*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

<b>Chair</b>	Rich LeFurgy	LeFurgy.com, The Walden Group
<b>Vice Chair</b>	Richy Glassberg	Phase2Media
<b>Co-Treasurers</b>	Chris Neimeth	Real Media
	Jed Savage	MSN Networks
	Scott Schiller	Go.com
<b>Secretary</b>	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	Greg Karlik
Engage Media	Lynn Chitow Oakes
Go.com	Scott Schiller
The Walden Group	Rich LeFurgy
Modem Media.Poppe Tyson, Inc.	John Nardone
MSN Networks	Jed Savage
Netflix.com	Debbie Pinkston
Phase2Media	Richy Glassberg
New York Times Digital	Christine Cook
Unicast Communications	Dick Hopple
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 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.



# PricewaterhouseCoopers New Media Group

PricewaterhouseCoopers ([www.pwcglobal.com](http://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

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