

IAB Internet Advertising Revenue Report



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

2001 First and Second Quarter Results
September 2001



Interactive
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 Interactive 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 ad selling 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, including wireless and interactive television (ITV).

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
Director, New Media
PricewaterhouseCoopers

Executive Summary

IAB Internet Advertising Revenue Report 2001 Second-Quarter and First Six-Month Highlights

Internet advertising revenues (“revenues”) in the United States totaled \$3.76 billion for the first two quarters of 2001, with Q1 accounting for \$1.893 billion and Q2 coming in at \$1.868 billion. Internet advertising revenues for the first six months of 2001 declined 7.8 percent from the same period in 2000.

Key trends underlying 2001 year-to-date results:

- ◆ **Revenues Decline** – revenues totaled slightly under \$3.8 billion for the first six months of 2001, a nearly 8 percent decrease over the first six months of 2000. This compares to a decline of nearly 6 percent for total media advertising,* and was stronger than radio (down nearly 20 percent for the first six months of 2001), and spot TV (down nearly 15 percent).

“We believe that the numbers we are reporting today must be viewed in the context of advertising overall. While the decline are not insignificant, they are well within the parameters of the overall advertising industry’s experience and seen in perspective, they reflect our confidence in the long term value of the online medium.”

Robin Webster, IAB President and CEO

- ◆ **Diversification in Advertising Formats** – classifieds grew to 15 percent of revenues in the first six months of 2001, from 5 percent in the same period in 2000. The categorization of ad types was expanded to include slotting fees, at 8 percent of the first two quarters revenues, and wireless and ITV, both at less than 1 percent of revenues for the same period. Ad banners accounted for 36 percent of total revenues during the first six months of 2001, down from the 51 percent reported in the first two quarters of 2000.

“This has been an important year for the Internet and online advertising. The Internet is recognized as a crucial source of information and usage is growing worldwide. During the past six months, IAB members have made impressive strides in developing new ways of advertising online, creating effective campaigns and measuring their success. Ours is a dynamic medium that, even in a slowing economy, has shown that it is gaining advertisers’ trust relative to other media.”

Shelby Bonnie, IAB Chairman

- ◆ **Internet Advertising Becomes More Concentrated** – the 10 leading companies accounted for 76 percent of total 2001 first and second quarter revenues, up from 70 percent reported for the same period in 2000. The 25 and 50 leading publishers accounted for 88 percent and 96 percent of 2001 first six-month revenues, respectively.

- ◆ **Consumer Advertisers Continue to Lead Spending** – consumer brand advertisers represented the largest category of advertiser spending at 30 percent of 2001 first six-month revenues. Computing advertisers, the second-largest category, accounted for 18 percent, followed by financial services at 13 percent, and media companies at 10 percent. Within the consumer category the biggest sub-categories are retail (50 percent of the consumer category), automotive (12 percent) and travel (11 percent).

- ◆ **Shift from Hybrid to CPM** – The prevalent pricing model shifted from hybrid pricing (40 percent for the first six months of 2001) to CPM (50 percent), compared to the same period of 2000 (hybrid at 47 percent; CPM at 43 percent). Performance pricing deals remained at 10 percent of 2001 first six-month revenues.

“This is a healthy trend for the industry. Pricing models based on the variables publishers control such as audience, space and editorial environment, are much more reliable than those which are outside the publisher’s control, such as the strength of the agency’s creative and/or the advertiser’s service or product.” Robin Webster, IAB President and CEO

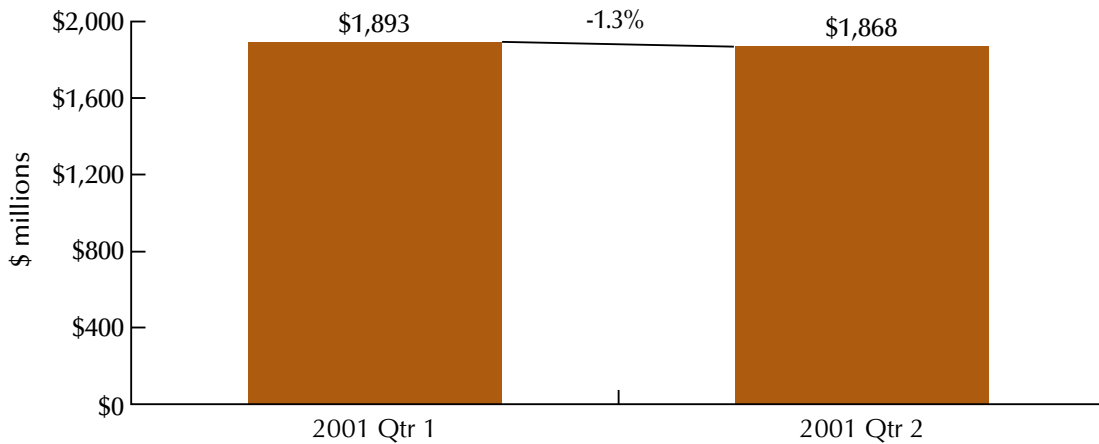
* Based on figures released by Competitive Media Reporting

Detailed Findings

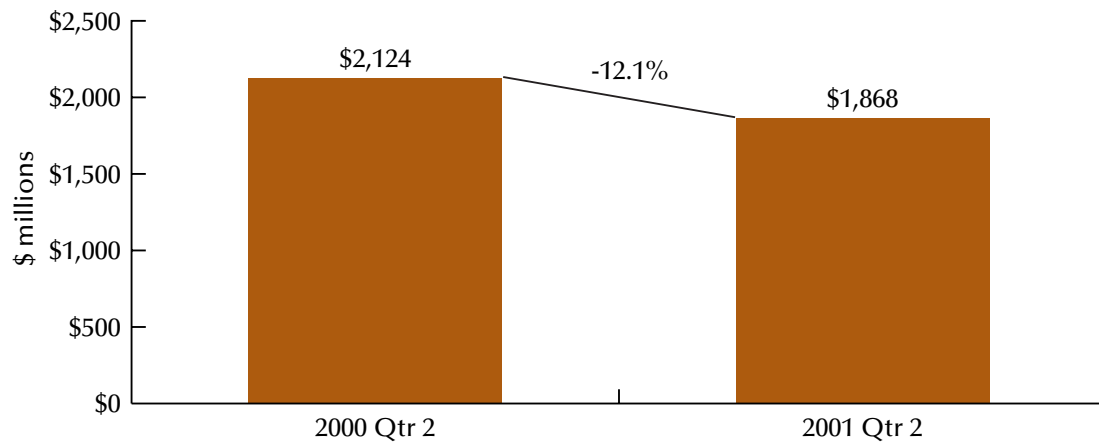
Revenues Totaled \$3.76 Billion for the First Six Months of 2001

- ◆ On-line publishers reported aggregate revenues totaling \$1.9 billion for the 2001 second quarter, marking the first time that revenues declined in consecutive quarters.
- ◆ Total 2001 second-quarter revenues were \$25 million or 1.3 percent lower than the first quarter of 2001, and \$256 million or 12.1 percent lower than the second quarter of 2000.

2001 Q2 vs 2001 Q1



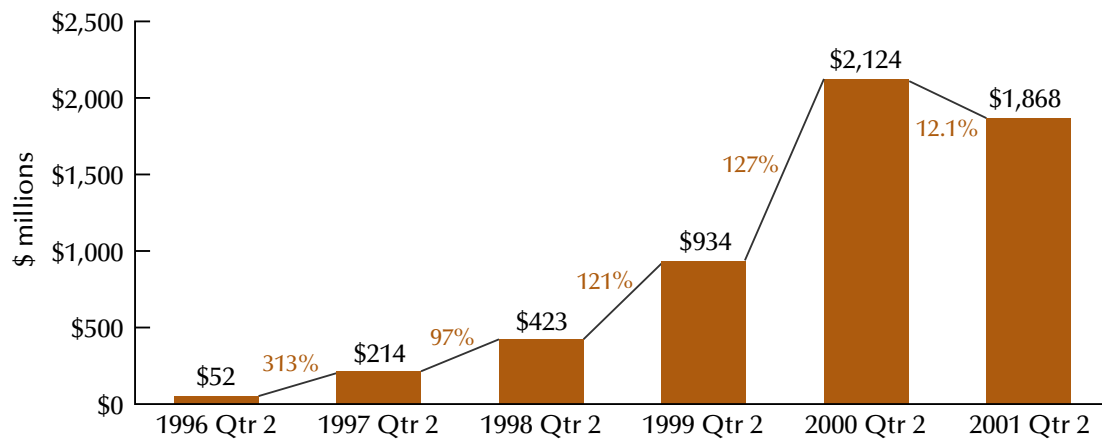
2001 Q2 vs 2000 Q2



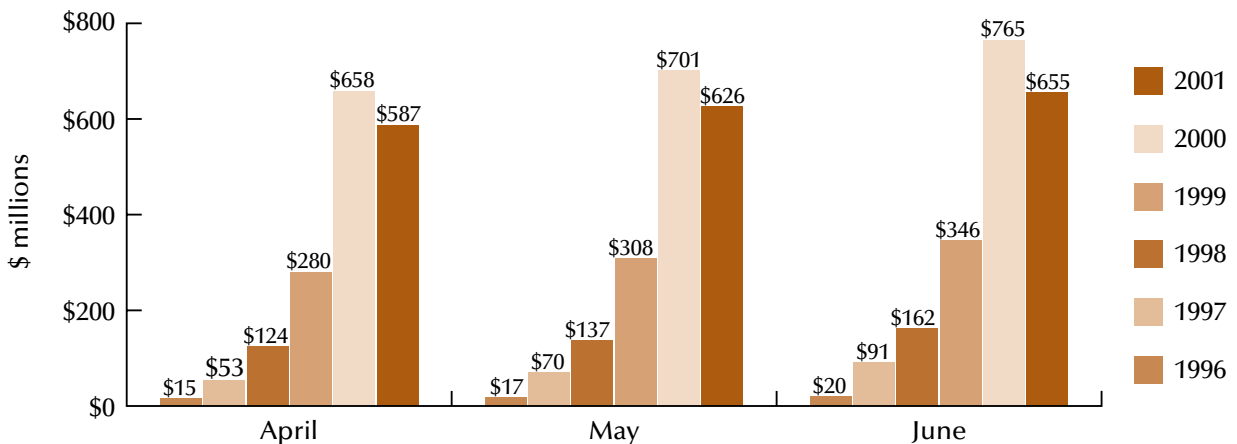
Historical Second-Quarter Revenue Trends

- ◆ Second-quarter revenues have increased significantly on a year-over-year percentage and dollar basis during the first four years, but slowed considerably in 2001, reflecting a softening economy.
- ◆ Revenues averaged \$623 million per month during the second quarter of 2001, compared to the 2001 first-quarter average of \$631 million, and the 2000 second-quarter average of \$708 million.

Second-Quarter \$ Revenue Comparisons – 1996 thru 2001



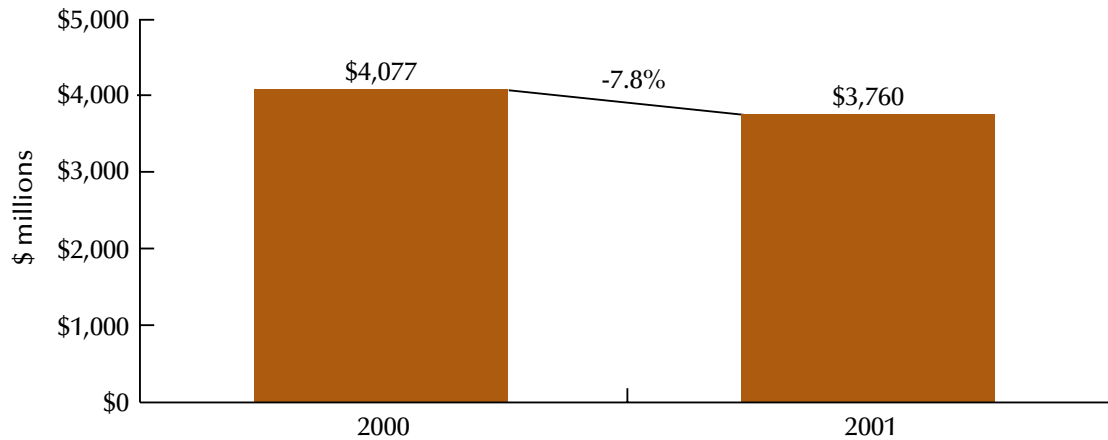
Second-Quarter Monthly \$ Revenue Comparisons – 1996 through 2001



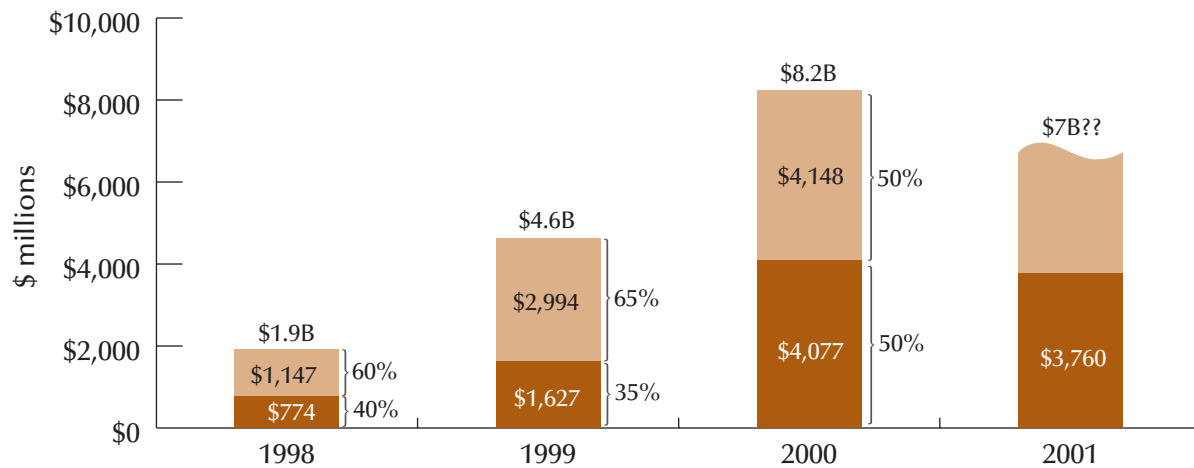
2001 First Six-Month Revenues Totaled \$3.8 Billion

- ◆ First six-month revenues for 2001 totaled \$3.8 billion, \$317 million or 7.8 percent lower than revenues reported for the same period in 2000.
- ◆ Using data from 2000, the 2001 first six-month revenues of \$3.8 billion are on an annual run-rate of between \$7 billion—\$8 billion.

First Six-Month Revenues
2001 vs 2000



First Six-Month Revenue Growth Comparisons



Revenues Historically Experience the Strongest Performance in the Second and Fourth Quarters

Annual and Quarterly Revenue Growth Comparisons

	\$ Rev Millions	% Growth			\$ Rev Millions	% Growth	
		Qtr/Qtr	Year/Year			Qtr/Qtr	Year/Year
1Q96	\$30	NA		1Q99	\$693	6%	97%
2Q96	\$52	74%		2Q99	\$934	35%	121%
3Q96	\$76	46%		3Q99	\$1,217	30%	148%
4Q96	\$110	45%		4Q99	\$1,777	46%	171%
Total 1996	\$267			Total 1999	\$4,621		141%
1Q97	\$130	18%	333%	1Q00	\$1,953	10%	182%
2Q97	\$214	66%	313%	2Q00	\$2,124	9%	127%
3Q97	\$227	6%	200%	3Q00	\$1,986	-7%	63%
4Q97	\$336	48%	205%	4Q00	\$2,162	9%	22%
Total 1997	\$907		239%	Total 2000	\$8,225		78%
1Q98	\$351	5%	171%	1Q01	\$1,893	-12%	-3%
2Q98	\$423	20%	97%	2Q01	\$1,868	-1%	-12%
3Q98	\$491	16%	116%	3Q01			
4Q98	\$656	34%	95%	4Q01			
Total 1998	\$1,920		112%	YTD 2001*	\$3,760		-8%

*YTD % compared to 2000 6-mos total

Industry Revenues Remain Concentrated

- ◆ On-line advertising remains concentrated with the 10 leading ad-selling companies, which accounted for 76 percent of total revenues in the second quarter of 2001, up from 71 percent reported for the second quarter of 2000.
- ◆ Companies ranked 11th to 25th accounted for 13 percent of revenues for the second and first quarter of 2001. Companies ranked 26th to 50th accounted for 7 percent in the second quarter of 2001, down slightly from 8 percent in the previous quarter.

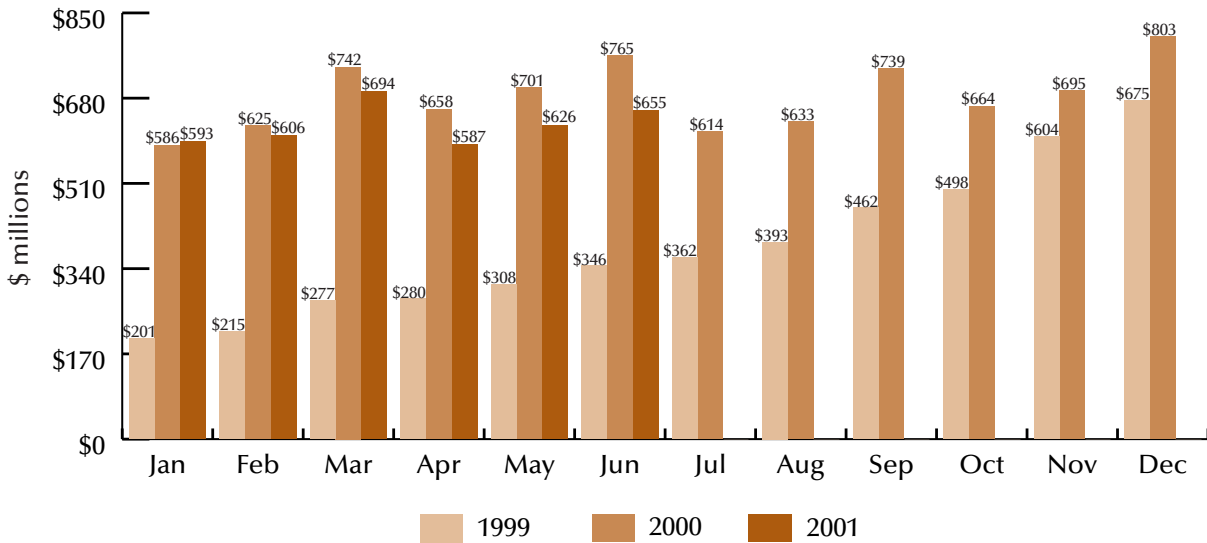
Total Share of Internet Advertising Revenues

	1998				1999				2000				2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Top 10	64%	67%	70%	71%	75%	75%	72%	70%	69%	71%	68%	71%	75%	76%		
Top 25	75%	80%	84%	86%	88%	86%	84%	85%	82%	83%	84%	85%	88%	89%		
Top 50	79%	85%	91%	92%	93%	90%	87%	94%	91%	91%	95%	95%	96%	96%		

Monthly Revenues Show First Year-Over-Year Decline After Four Years of Growth

- ◆ Monthly industry revenues averaged \$623 million during the second quarter of 2001.
- ◆ Revenues totaled \$655 million for the month of June 2001, marking a revenue decrease of over \$100 million compared to June 2000.

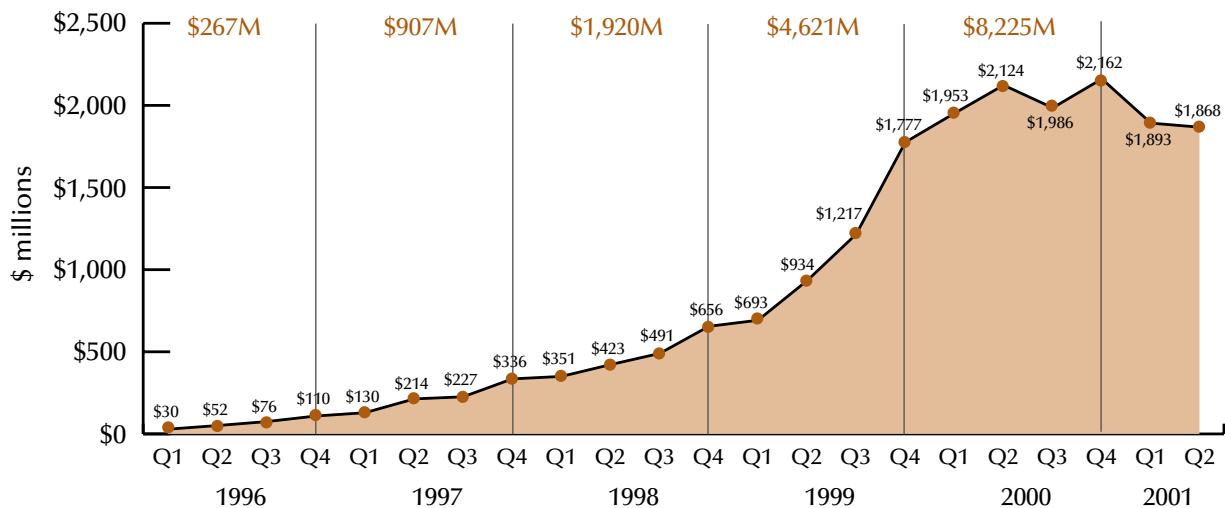
Monthly \$ Revenue Growth Comparisons



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.
- ◆ Following four years of significant revenue growth, 2001 revenues declined for the first time on a quarterly basis from the previous year.

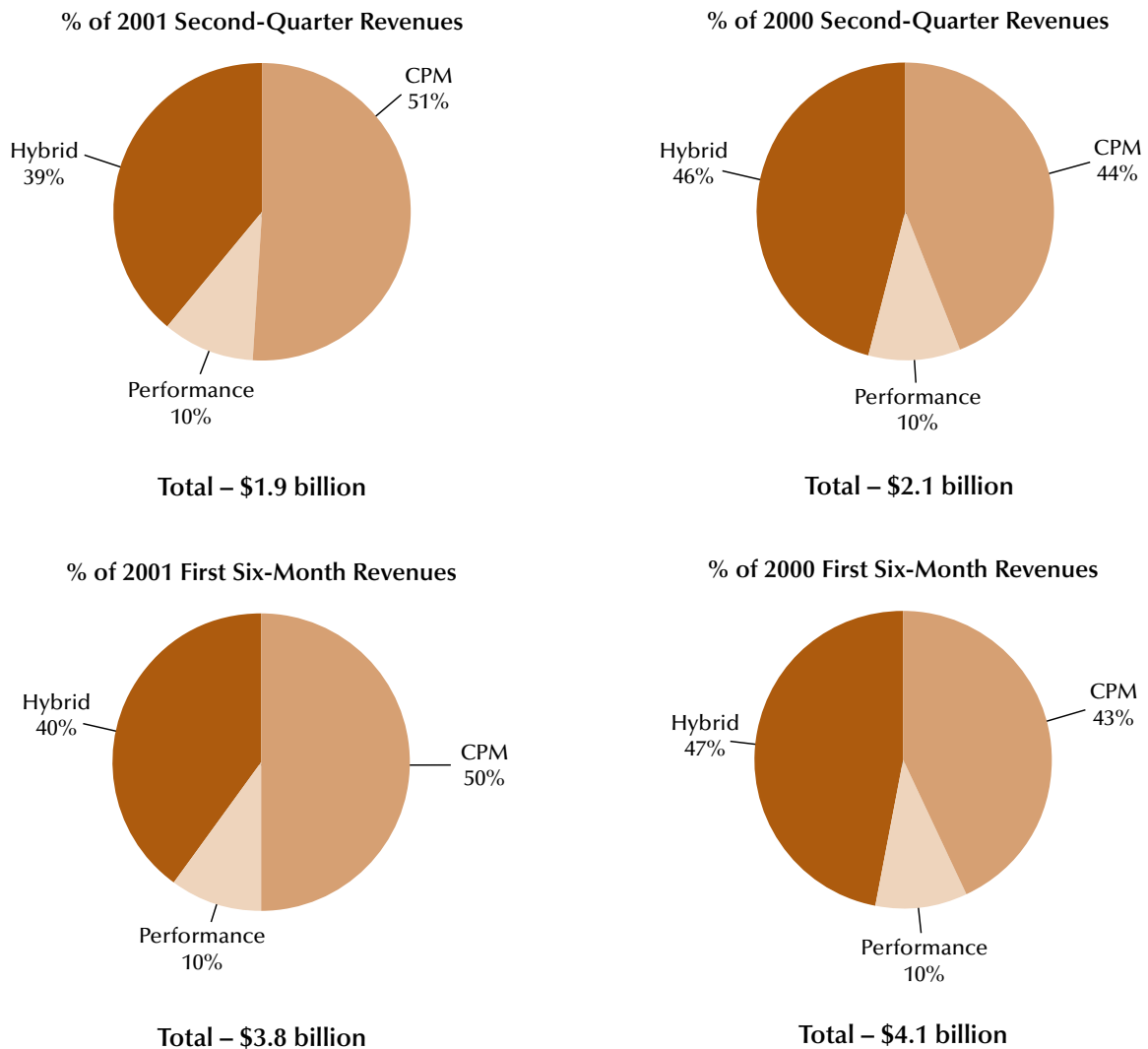
Quarterly \$ Revenue Growth Comparisons



Leading Category Shifts from Hybrid Pricing Deals to CPM

- ◆ Survey participants reported 51 percent of 2001 second-quarter revenues were priced on a CPM or impression basis (includes sponsorships), up from 44 percent reported for the second quarter of 2000.
- ◆ Thirty nine percent of 2001 second-quarter revenues were priced on a hybrid basis (e.g., mix of impression-based pricing plus performance-based compensation), down from 46 percent reported for the second quarter of 2000.
- ◆ Ten percent of 2001 second-quarter revenues were priced on a performance basis (e.g., cost-per-click, sale, lead or straight revenue share) consistent with the 2000 second quarter.

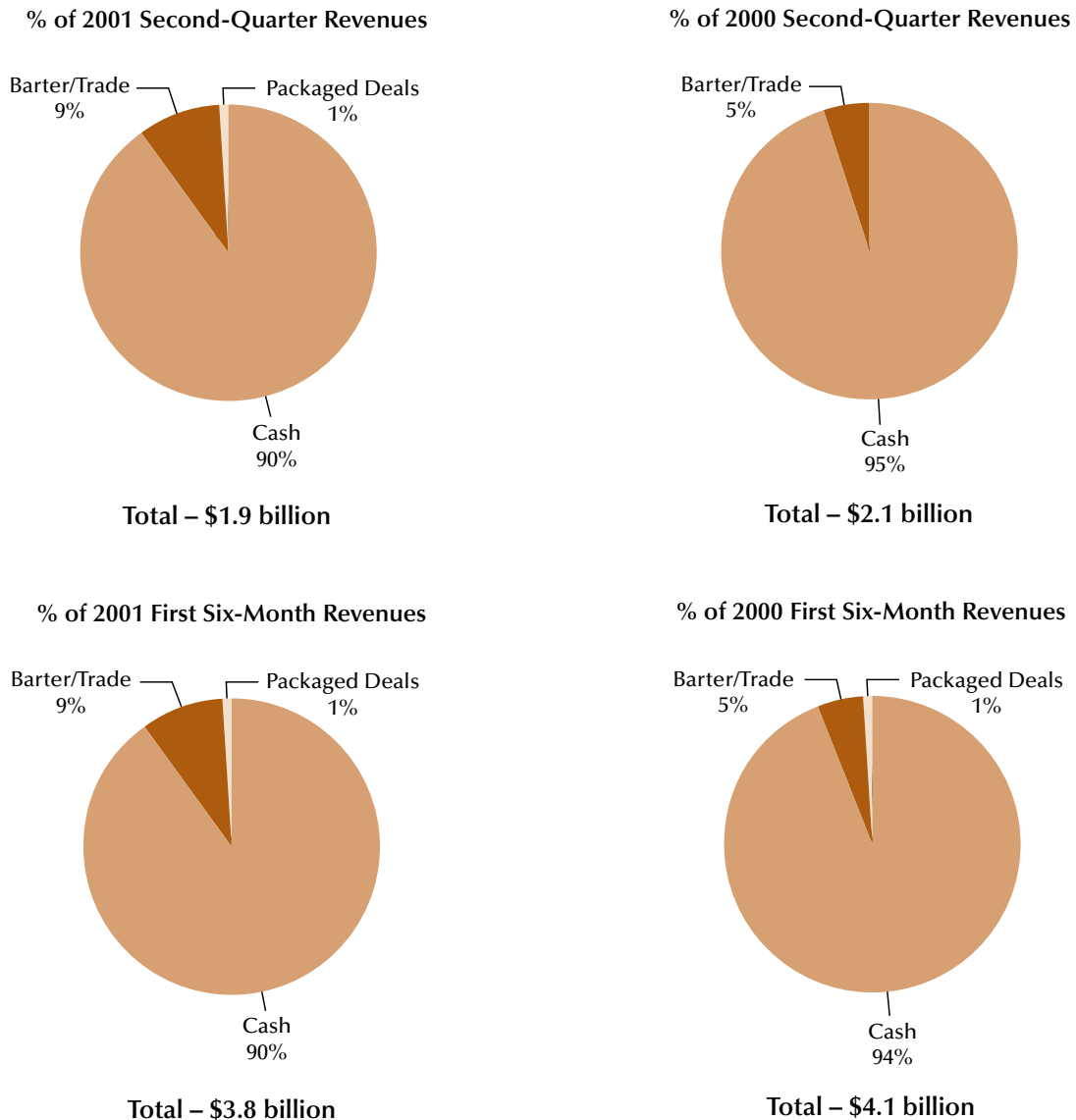
Internet Ad Revenues by Pricing Model



Cash Deals Remain Dominant

- ◆ Approximately 90 percent of total advertising revenues generated in the second quarter of 2001 were reported as cash deals, down from the 95 percent reported for the second quarter of 2000.
- ◆ Barter or trade deals accounted for 9 percent of 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 1 percent of total 2001 second-quarter revenues.
- ◆ 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.

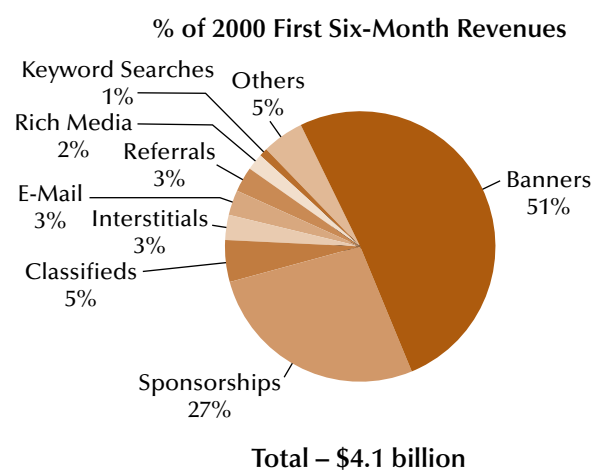
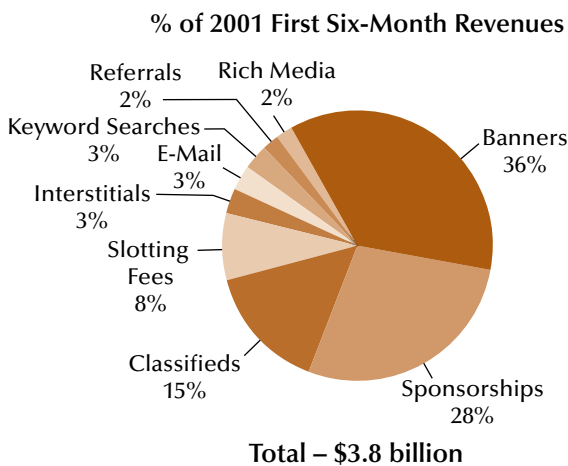
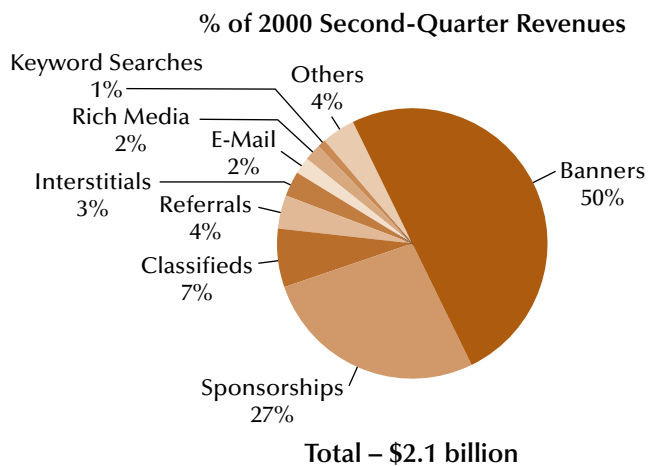
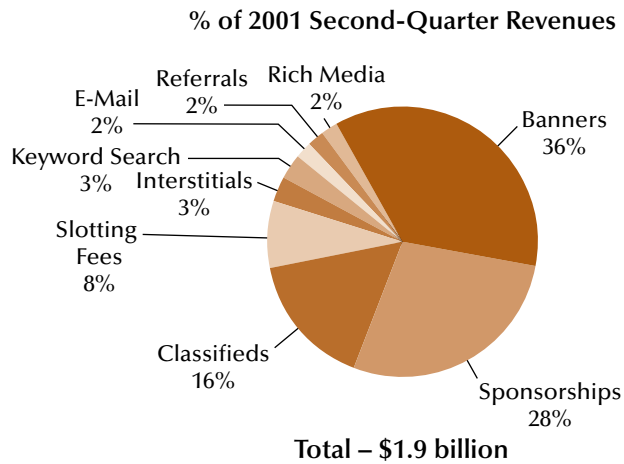
Internet Ad Revenues by Transaction



Diversification in Advertising Formats

- ◆ The categorization of ad types was expanded in the first and second quarter of 2001, reflecting the growth in creative online formats. The types of ad formats now being delineated include slotting fees at 8 percent of 2001 second-quarter revenues, and wireless and ITV, both combined representing less than 1 percent of second-quarter revenues.
- ◆ Ad banners accounted for 36 percent of total revenues during the second quarter of 2001, down considerably from the 50 percent reported in the second quarter of 2000.
- ◆ Sponsorships generated 28 percent of revenues during the second quarter of 2001, up slightly from the 27 percent reported for the second quarter of 2000.
- ◆ Emerging online ad formats reported revenue increases in the 2001 second quarter, including classifieds at 16 percent of 2001 second-quarter revenues, up from 7 percent in the second quarter of 2000. Keyword searches accounted for 3 percent of 2001 second-quarter revenues, tripling from the second quarter of 2000.
- ◆ Referrals accounted for 2 percent of 2001 second-quarter revenues, down from 4 percent of 2000 second-quarter revenues. Interstitials and e-mail remained constant at 3 percent and 2 percent respectively.

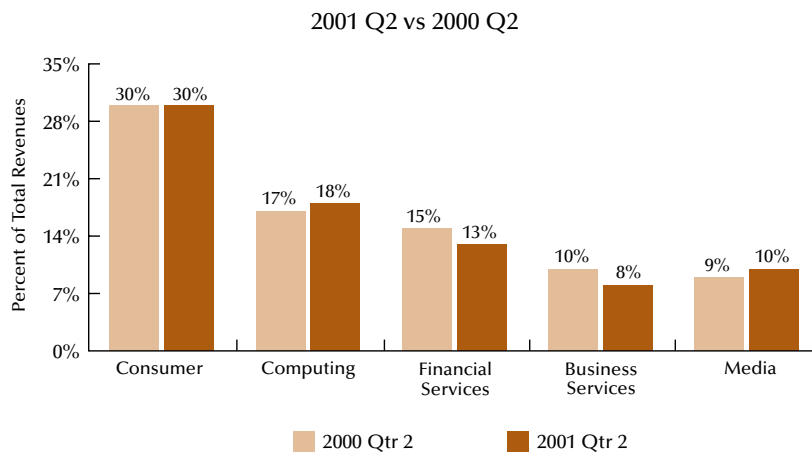
Internet Ad Revenues by Advertising Formats



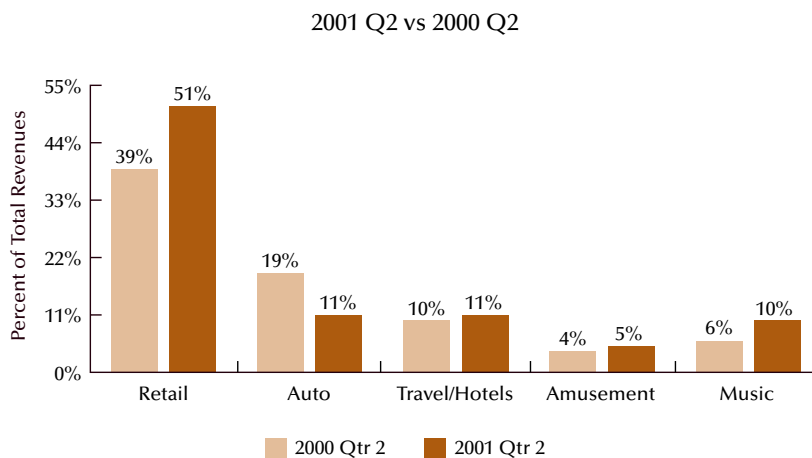
Internet Advertising Remains Concentrated in Five Industry Sectors

- ◆ Five industry sectors accounted for 79 percent of total 2001 second-quarter revenues, down from 81 percent in the same period for 2000. Consumer advertisers represented the largest category of spending, accounting for 30 percent of 2001 and 2000 second-quarter revenues.
- ◆ Computing advertisers represented the second-largest category of spending at 18 percent of 2001 second-quarter revenues, up from 17 percent reported in the second quarter of 2000. Financial Services advertisers represented the third-largest category of spending at 13 percent of 2001 second-quarter revenues, down from 15 percent reported in the second quarter of 2000.
- ◆ Business services accounted for 8 percent of 2001 second-quarter revenues, down slightly from 10 percent reported for the second quarter of 2000, while Media companies accounted for 10 percent of 2001 second-quarter revenues, up from 9 percent reported for the second quarter of 2000.
- ◆ Retail and Automotive companies together accounted for 62 percent of 2001 second-quarter consumer-related revenues, followed by Travel/Hotels at 11 percent, Music at 10 percent, and Amusement at 5 percent.

Internet Ad Revenues by Major Industry Category



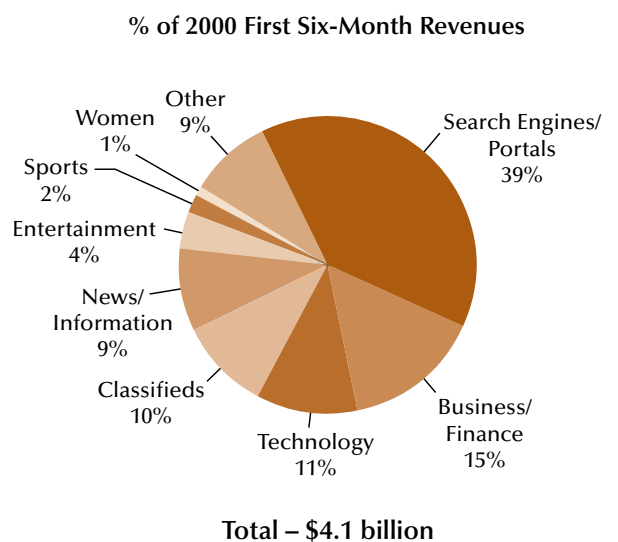
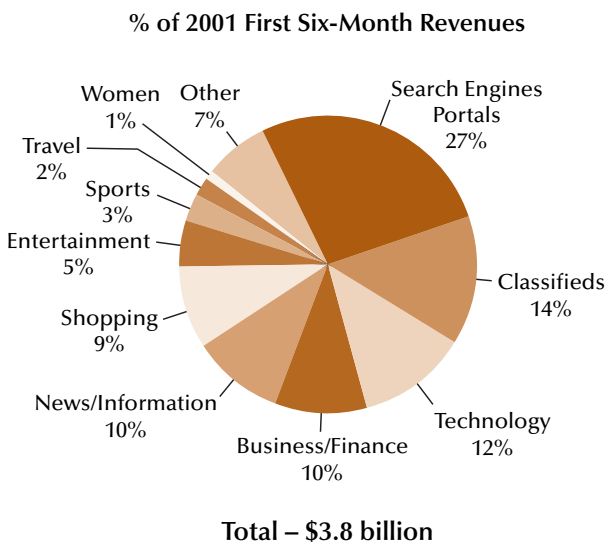
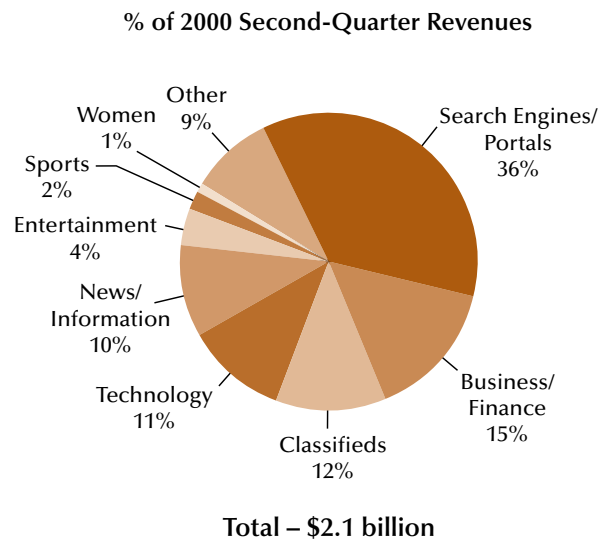
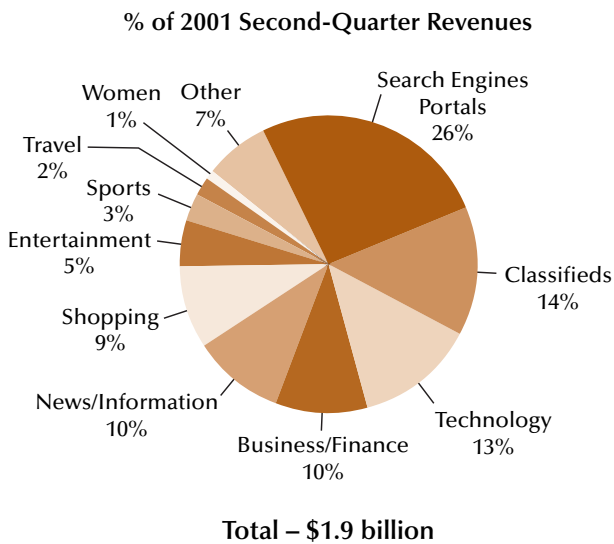
Internet Ad Revenues by Major Consumer Category



Portals, Classifieds, and Technology are the Leading Content Genre

- ◆ Survey participants reported 26 percent of total 2001 second-quarter revenues were associated with search engine/portal content, compared to 36 percent reported for the 2000 second quarter.
- ◆ Classifieds represented the next leading content category of advertising revenue, at 14 percent of 2001 second-quarter revenues, followed by Technology at 13 percent.
- ◆ Business/Finance and News/Information each accounted for 10 percent of 2001 second-quarter revenues, compared to 15 and 10 percent respectively, reported for the 2000 second quarter.
- ◆ Shopping (9% of 2001 second-quarter revenues), entertainment (5%), sports (3%), travel (2%), and women (1%) rounded out the categories of leading content genre.

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

Overall Report Guidance Provided by IAB Leadership

IAB Officers

President & CEO	Robin Webster	Interactive Advertising Bureau
Chair	Shelby Bonnie	CNET Networks, Inc.
Vice Chair	Steve Wadsworth	Walt Disney Internet Group
Secretary/Treasurer	David Moore	24/7 Media, Inc.

IAB Board

About, Inc.	Scott Kurnit
AOL Interactive Marketing	Paul De Benedictis
B2B Works	Bill Furlong
DoubleClick, Inc.	Barry Salzman
Forbes.com	James Spanfeller
Gemstar-TV Guide International, Inc.	Jeffrey Mahl
iVillage, Inc.	John Barbera
iWon Inc.	Evan Sternschein
L90	John Bohan
MarketWatch.com	Scot McLernon
MSN	Jed Savage
New York Times Digital	Martin Nisenholtz
Overture Services, Inc.	Ted Meisel
Snowball.com	Rick Boyce
Sportsline.com	Mark Mariani
TerraLycos	Rich Gotham
The Wall Street Journal Online	Randy Kilgore
United Online	Mark Goldston
Vindigo, Inc.	Jason Devitt
Walden VC	Rich LeFurgy
Yahoo!, Inc.	Greg Coleman

About the Interactive Advertising Bureau

Founded in 1996, the IAB is the industry's leading interactive advertising association. Its activities include evaluating and recommending guidelines and best practices, fielding research to document the effectiveness of interactive media, and educating the advertising industry about the use of interactive advertising and marketing. Membership includes companies that are actively engaged in the sale of interactive advertising and marketing. For more information, please visit our Web site at www.iab.net.

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.

For information about our New Media Group, contact one of the following PricewaterhouseCoopers professionals:

New York

Tom Hyland
Partner, New Media Group Chair
646-394-2404
thomas.e.hyland@us.pwcglobal.com

Pete Petrusky
New Media Group Director
646-394-3309
peter.petrusky@us.pwcglobal.com

Russ Sapienza
Partner, New Media
646-394-1517
russell.j.sapienza@us.pwcglobal.com

Boston

Vic Petri
Partner, Business Assurance
617-478-1698
victor.petri@us.pwcglobal.com

Los Angeles

Phil Cross
Partner, Business Assurance
213-356-6491
philip.m.cross@us.pwcglobal.com

Seattle

Suzanne Faulkner
Partner, Business Assurance
206-398-3550
suzanne.faulkner@us.pwcglobal.com

