

IAB Internet Advertising Revenue Report



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

2001 Full-Year Results
June 2002



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, 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.

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 2001 Full-Year Highlights

Key trends underlying 2001 full-year results:

- ◆ **Revenues Decline** – Internet advertising revenue in the United States totaled \$1.7 billion for the fourth quarter of 2001 and \$7.2 billion for the year of 2001. Internet advertising revenues declined 7.5% from the third quarter of 2001 and 23.4% from the fourth quarter of 2000, reflecting a continued decline in the overall advertising market.

“We believe that in assessing the results of Internet advertising in 2001, it would be a mistake to limit the comparison to the results for 2000, the banner year for all advertising sectors. It’s no secret that the slowing economy, combined with the very responsible actions by advertisers and media outlets in all sectors, as out of respect they ceased virtually all activities for over a month, has had an impact on the results for 2001.”

– Greg Stuart, IAB President and CEO

- ◆ **Consumer Advertisers Continue to Lead Spending** – consumer brand advertisers represented the largest category of advertiser spending at 31 percent of 2001 fourth quarter revenues. Computing advertisers, the second-largest category, accounted for 19 percent, followed by media at 16 percent, and financial services companies at 11 percent. Within the consumer category the biggest sub-categories are retail (49 percent of the consumer category), music (16 percent) and automotive (12 percent).

“The larger traditional advertisers have begun to recognize the value that Internet advertising brings to their overall marketing efforts, and that by integrating their offline efforts with online exposure, the combined effect offers them strong growth potential. This was amply demonstrated by the results of the Unilever/MSN Media Mix research release in February of this year, in which the research suggested that increased online advertising may result in increased key metrics such as brand awareness, brand attitudes and purchase intent and branding effectiveness.”

– IAB Press Release

- ◆ **Internet Advertising Increases Concentration** – the 10 leading companies accounted for 77 percent of total 2001 fourth quarter revenues, up from 71 percent reported for the same period in 2000. The 25 and 50 leading ad sellers accounted for 91 percent and 98 percent of 2001 fourth quarter revenues, respectively.

“Unlike other ad-supported media platforms, the Internet advertising industry has the ability to learn quickly from its research and foster positive change for the benefit of advertiser growth and spending. The revenue we have seen for this quarter and the full year, compare favorably with the results we have seen reported from other sectors, and we believe that this is attributable to online ad sellers’ ability to address advertiser needs in a timely fashion.”

– Thomas Hyland, Chair, PricewaterhouseCoopers New Media Group

- ◆ **Diversification in Advertising Formats** – classifieds more than doubled from 7 percent of total revenues in 2000 to 16 percent of 2001 total revenues. However, classifieds revenue totalled 15 percent of 2001 fourth-quarter revenues down from 17 percent in the previous third quarter. Slotting fees accounted for 8 percent of the fourth quarter revenues. Ad banners accounted for 35 percent of total revenues during the fourth quarter of 2001, down from the 40 percent reported in the same period in 2000.

“The top three ad formats – banners, sponsorships, and classifieds – still account for the lion’s share of industry revenue. The slight decline in classifieds partly reflects continued weakness in the job market, and was partially offset by growth in auction-based listings.”

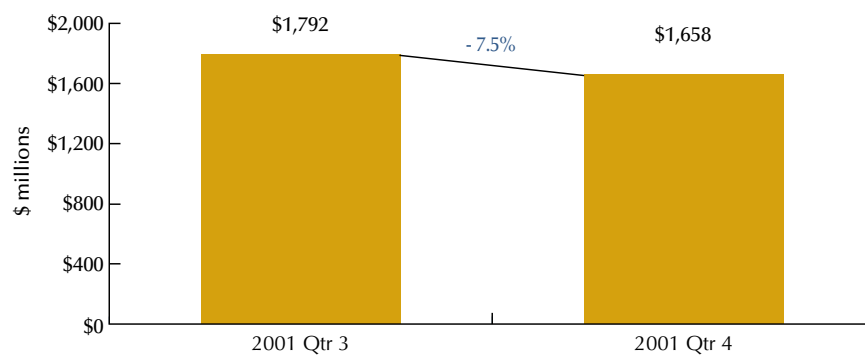
– Pete Petrusky, Director, PricewaterhouseCoopers

Detailed Findings

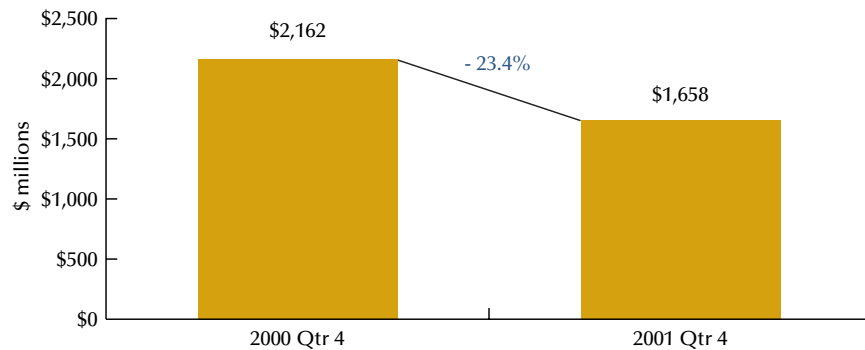
Revenues Totaled \$1.7 Billion for the Fourth Quarter of 2001

- ◆ On-line ad sellers reported aggregate revenues totaling \$1.7 billion for the 2001 fourth quarter, marking the fourth consecutive quarterly decrease since the fourth quarter of 2000.
- ◆ Total 2001 fourth-quarter revenues were \$134 million or 7.5 percent lower than the third quarter of 2001, and \$505 million or 23.4 percent lower than the fourth quarter of 2000.
- ◆ According to CMR, total advertising revenues declined 12 percent during the fourth quarter of 2001, led by network TV (down 8.4 percent), magazines (-13.7 percent) and spot TV (-18.9 percent).

2001 Q3 vs 2001 Q4



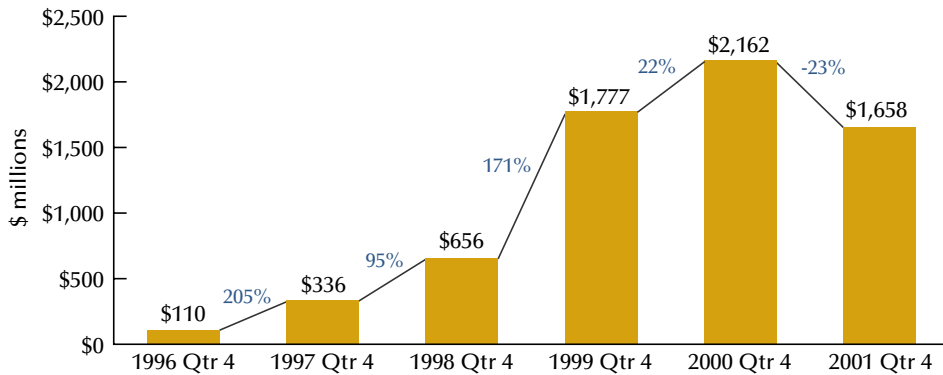
2001 Q4 vs 2000 Q4



Historical Fourth-Quarter Revenue Trends

- ◆ Fourth-quarter revenues have historically increased on a year-over-year percentage and dollar basis during the first four years, but decreased 23 percent in 2001, reflecting a softening economy, and a weaker overall advertising environment.
- ◆ Revenues averaged over \$550 million per month during the fourth quarter of 2001, compared to the 2000 fourth-quarter average of over \$720 million.

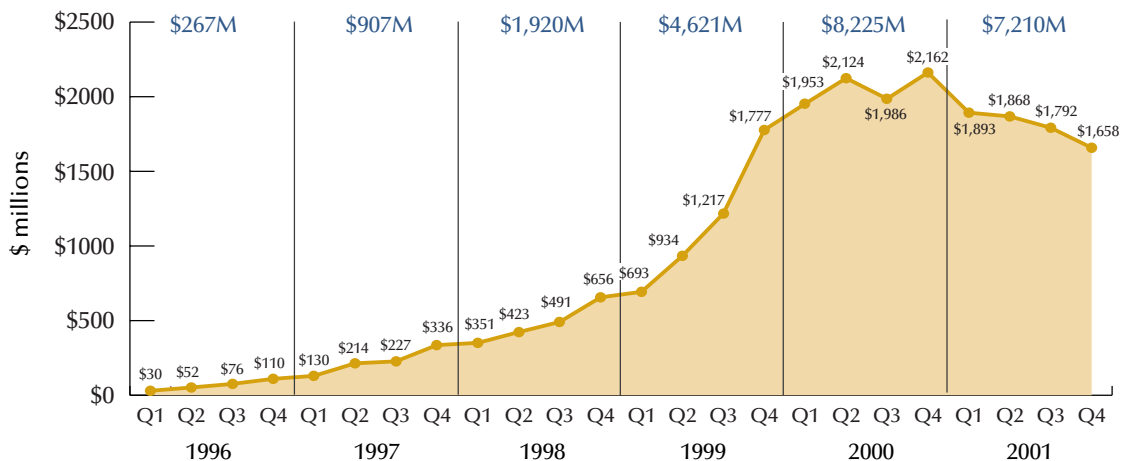
Fourth-Quarter \$ Revenue Comparisons – 1996 thru 2001



Revenues Historically Exhibit Seasonality

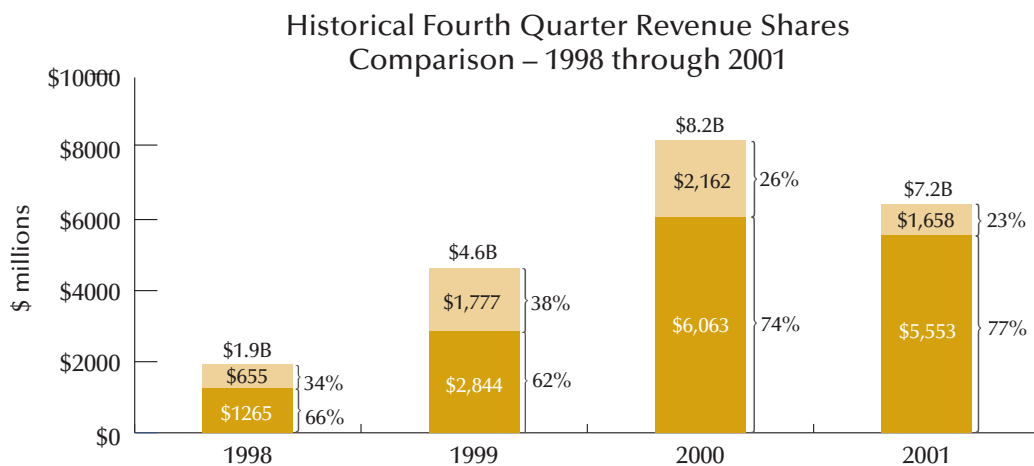
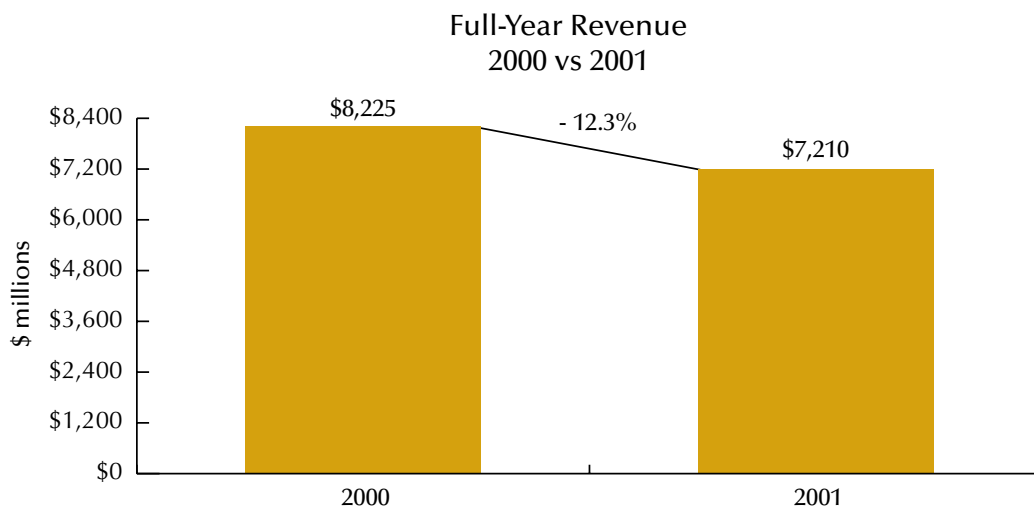
- ◆ Quarterly industry revenues historically exhibited a seasonal growth pattern through the year 2000 where the strongest growth occurred during the second and fourth quarters.
- ◆ Revenues have declined all four quarters of 2001, similar to most other ad sectors during the year.
- ◆ 2001 fourth quarter revenues of under \$1.7 billion are the lowest reported since the third quarter of 1999.

Quarterly \$ Revenue Growth Comparisons – 1996-2001



2001 Annual Revenues Totaled \$7.2 Billion

- ◆ Full-year revenues for 2001 totaled \$7.2 billion, \$1.0 billion or 12.3 percent lower than full-year revenues for 2000.
- ◆ Total advertising expenditures for all media in 2001 fell nearly 10.0 percent, compared to the same time period for 2000, according to CMR.
- ◆ National newspapers and national spot radio exhibited the sharpest declines in ad revenues, dropping 23 and 21 percent respectively in 2001 (CMR). Other sector declines in 2001 include network TV (down 8 percent) and spot TV (-18 percent). Cable TV held steady in 2001, reporting a modest increase of 1 percent (CMR)



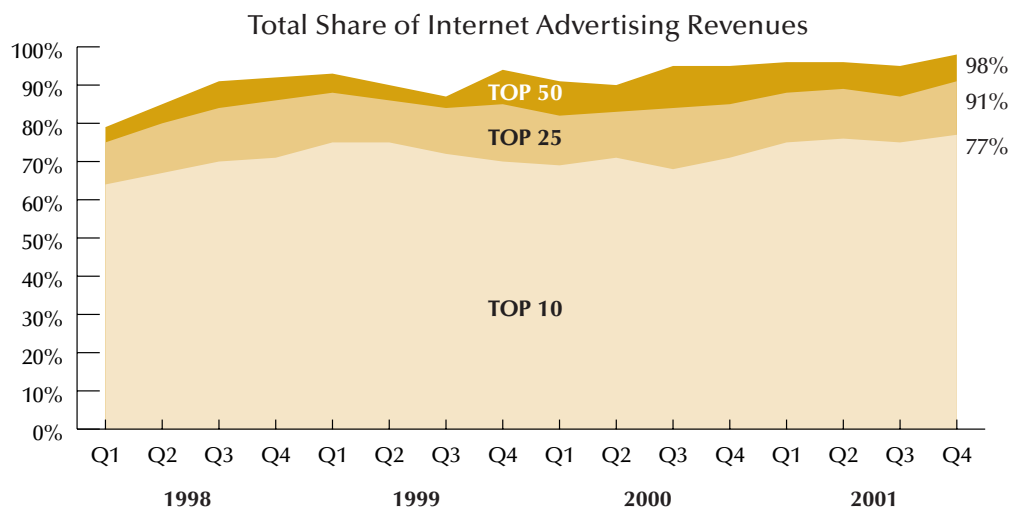
Revenues Historically Experience the Strongest Performance in the Second and Fourth Quarters

Annual and Quarterly Historical Revenue Trends

	\$ 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	\$1,792	-4%	-10%
4Q98	\$656	34%	95%	4Q01	\$1,658	-8%	-23%
Total 1998	\$1,920		112%	Total 2001	\$7,210		-12%

Industry Revenue Concentration Rises

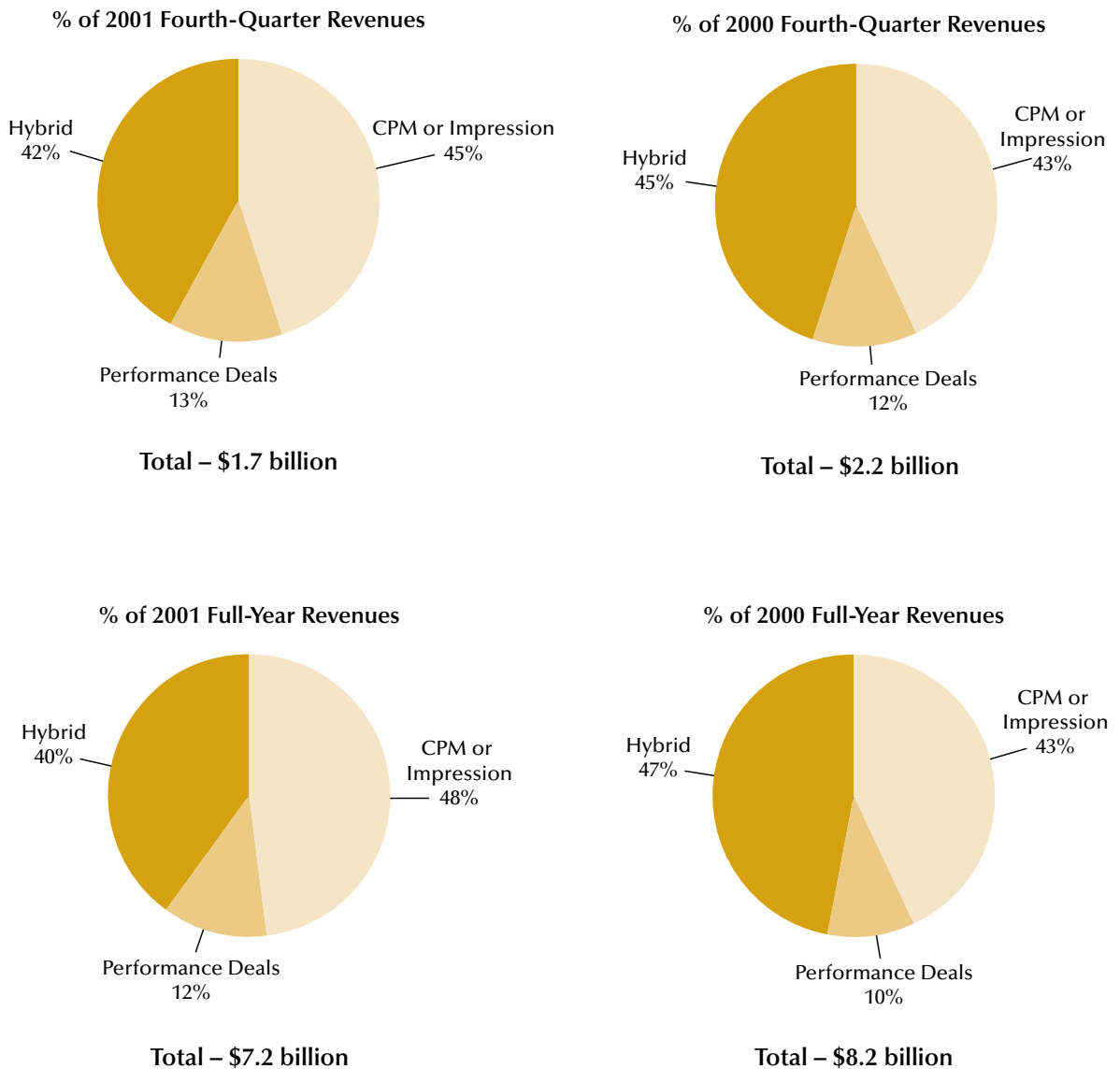
- ◆ On-line advertising revenues are increasingly concentrated with the 10 leading ad-selling companies, which accounted for 77 percent of total revenues in the fourth quarter of 2001, up from 71 percent reported for the fourth quarter of 2000.
- ◆ Companies ranked 11th to 25th accounted for 14 percent of revenues for the fourth quarter of 2001 and 2000. Companies ranked 26th to 50th accounted for 7 percent in the fourth quarter of 2001, down from 10 percent in the same period in 2000.



Industry Reporting Fewer Hybrid Pricing Deals

- ◆ Approximately 45 percent of 2001 fourth-quarter revenues were priced on a CPM or impression basis (includes sponsorships), up from 43 percent reported for the fourth quarter of 2000.
- ◆ Forty percent of 2001 revenues were priced on a hybrid basis (e.g., mix of impression-based pricing plus performance-based compensation), down from 47 percent reported for all of 2000.
- ◆ Twelve percent of 2001 revenues were priced on a performance basis (e.g., cost-per-click, sale, lead or straight revenue share) up from 10 percent reported for the year 2000.

Internet Ad Revenues by Pricing Model

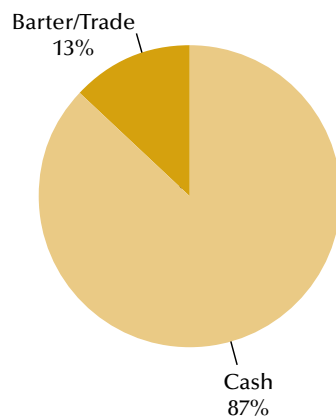


While Cash Deals Remain Dominant, Barter Deals Are Rising

- ◆ Approximately 87 percent of total advertising revenues generated in the fourth quarter of 2001 were reported as cash deals, down from the 92 percent reported for the fourth quarter of 2000. Cash deals accounted for 89 percent of total 2001 revenues, down from 93 percent reported for the year 2000.
- ◆ Barter or trade deals accounted for 13 percent of revenues in the fourth quarter of 2001, up sharply from 7 percent reported in the fourth quarter of 2000.

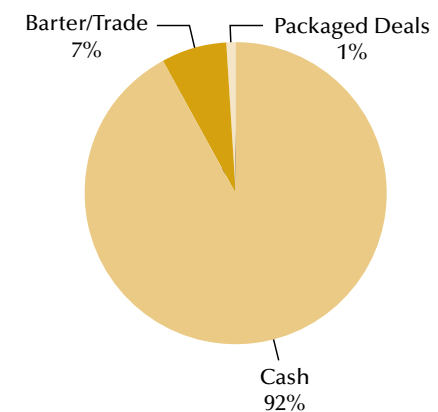
Internet Ad Revenues by Transactions

% of 2001 Fourth-Quarter Revenues



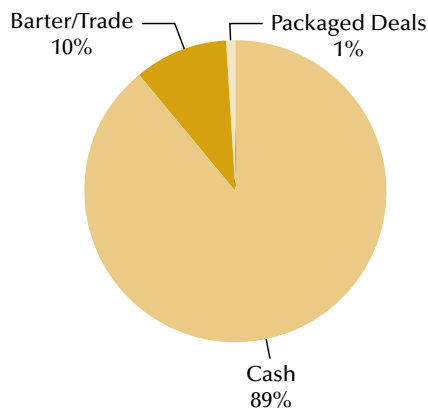
Total – \$1.7 billion

% of 2000 Fourth-Quarter Revenues



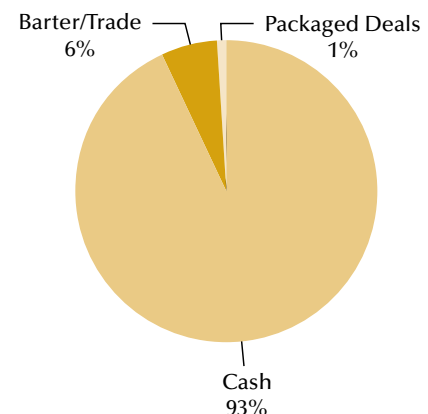
Total – \$2.2 billion

% of 2001 Full-Year Revenues



Total – \$7.2 billion

% of 2000 Full-Year Revenues

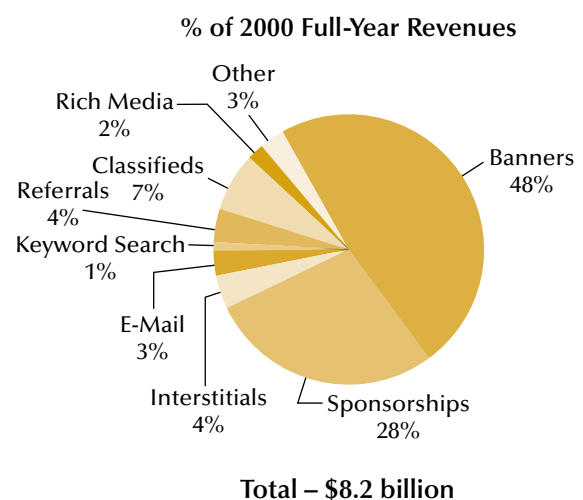
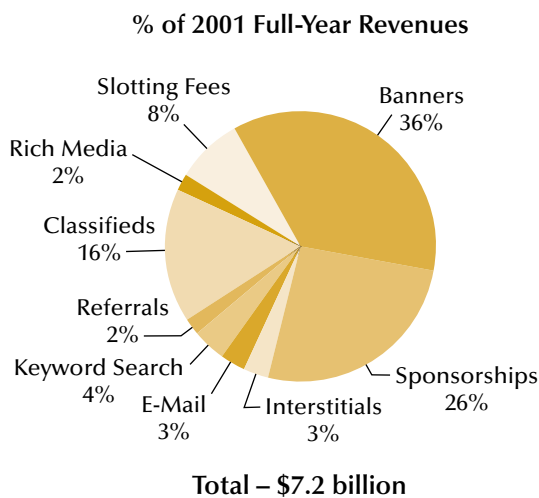
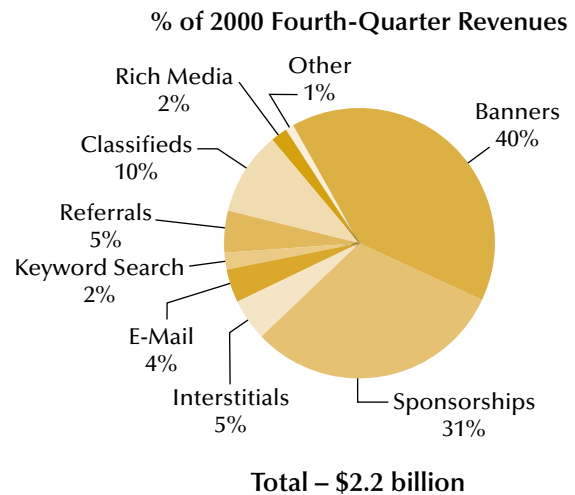
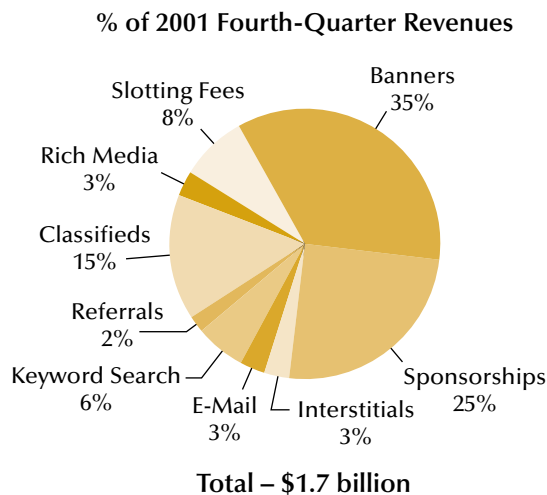


Total – \$8.2 billion

Other Advertising Formats Emerged in 2001

- ◆ The categorization of ad types was expanded in 2001, reflecting the growth in creative formats employed online.
- ◆ Ad banner revenue continues to decline, accounting for 35 percent of total revenues during the fourth quarter of 2001, down from the 40 percent reported in the fourth quarter of 2000. On a full-year basis, banners accounted for 36 percent of revenues in 2001, down considerably from the 48 percent reported for the full year of 2000.
- ◆ Sponsorships (which include banner elements) generated 25 percent of revenues during the fourth quarter of 2001, down from the 31 percent reported for the fourth quarter of 2000.
- ◆ Other online ad formats reported revenue increases in the 2001 fourth quarter, including classifieds at 15 percent of 2001 fourth-quarter revenues, up from 10 percent in the fourth quarter of 2000, and keyword searches accounted for 6 percent of 2001 fourth-quarter revenues, a 4 percent increase from the fourth quarter of 2000.
- ◆ Referrals and Interstitials accounted for 2 and 3 percent of 2001 fourth-quarter revenues, respectively, down from 5 percent of 2000 fourth-quarter revenues.

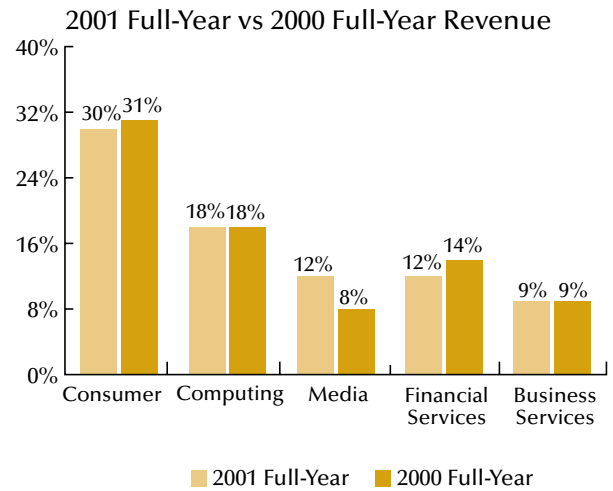
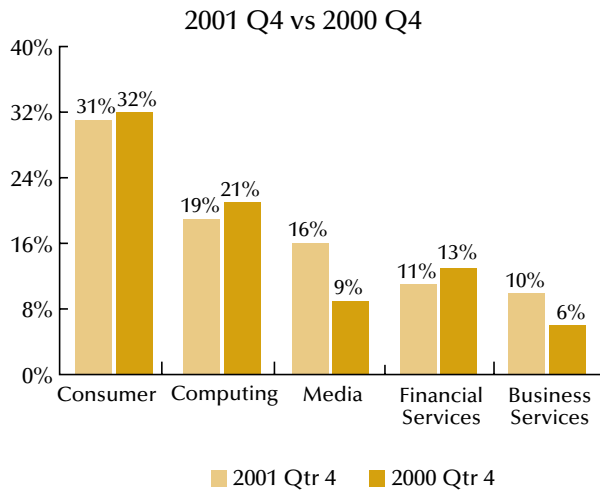
Internet Ad Revenues by Advertising Vehicle



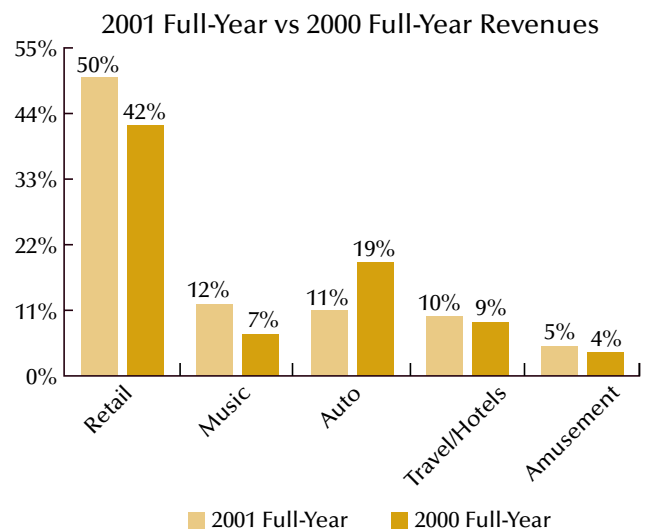
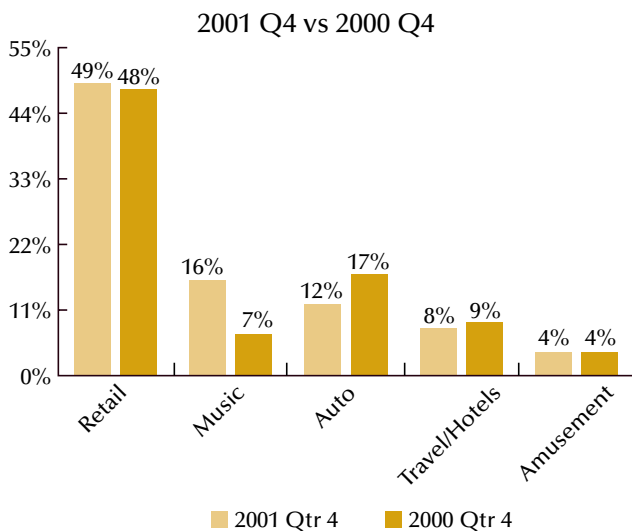
Internet Advertising Remains Concentrated in Five Industry Sectors

- ◆ Five industry sectors accounted for 87 percent of total 2001 fourth-quarter revenues, up from 81 percent in the same period for 2000. Consumer advertisers continue to represent the largest category of Internet ad spending, accounting for 31 percent of 2001 and 32 percent of 2000 fourth-quarter revenues.
- ◆ Computing advertisers represented the second-largest category of spending at 19 percent of 2001 fourth-quarter revenues, down slightly from 21 percent reported in the fourth quarter of 2000. Media advertisers represented the third-largest category of spending at 16 percent of 2001 fourth-quarter revenues, up sharply from 9 percent reported in the fourth quarter of 2000.
- ◆ Financial services accounted for 11 percent of 2001 fourth-quarter revenues, down slightly from 13 percent for the fourth quarter of 2000. Business services accounted for 10 percent of 2001, sharply increasing from 6 percent reported in the fourth quarter of 2000.
- ◆ Retail and Music companies, at 49 and 16 percent, respectively, together account for nearly two-thirds of 2001 fourth-quarter consumer-related revenues, followed by Automotive at 12 percent, Travel/Hotels at 8 percent, and Amusement at 4 percent.

Internet Ad Revenues by Major Industry Category



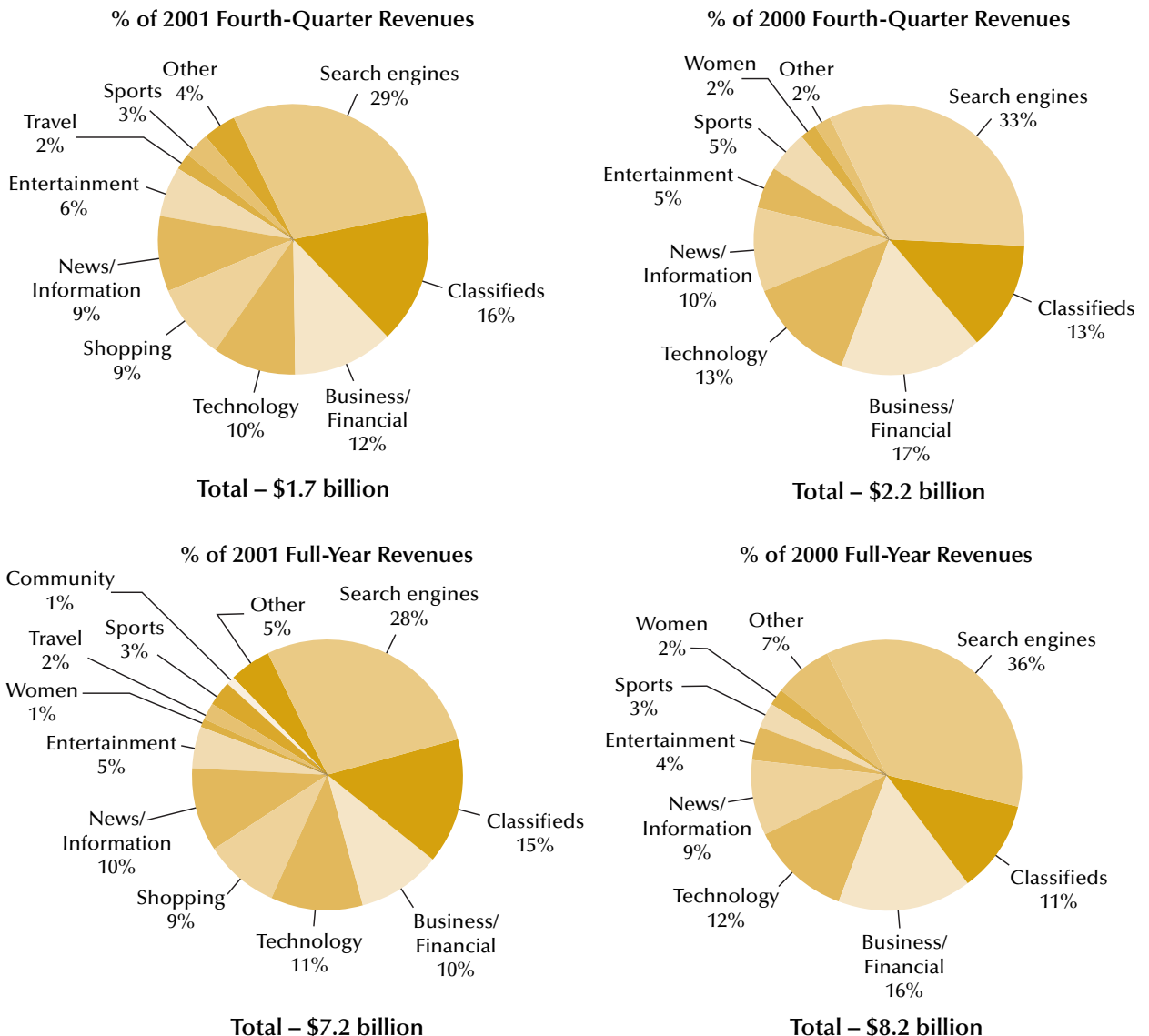
Internet Ad Revenues by Major Consumer Category



Portals and Classifieds are the Leading Content Genre

- ◆ Survey participants reported 29 percent of total 2001 fourth-quarter revenues were associated with search engine/portal content, compared to 33 percent reported for the 2000 fourth quarter.
- ◆ Classifieds-related content now represents the second leading content category of advertising revenues, at 16 percent of 2001 fourth-quarter revenues, compared to 13 percent for the same period in 2000. Business/Finance followed with 12 percent for 2001, compared to 17 percent of 2000 fourth-quarter revenues.
- ◆ Technology and News/Information represented 10 and 9 percent respectively, of 2001 fourth-quarter online advertising revenues content, compared to 13 and 10 percent, respectively, reported for the 2000 fourth quarter.
- ◆ Shopping (9% of 2001 fourth-quarter revenues), entertainment (6%), sports (3%), travel (2%), and other (4%) rounded out the categories of leading content genre.

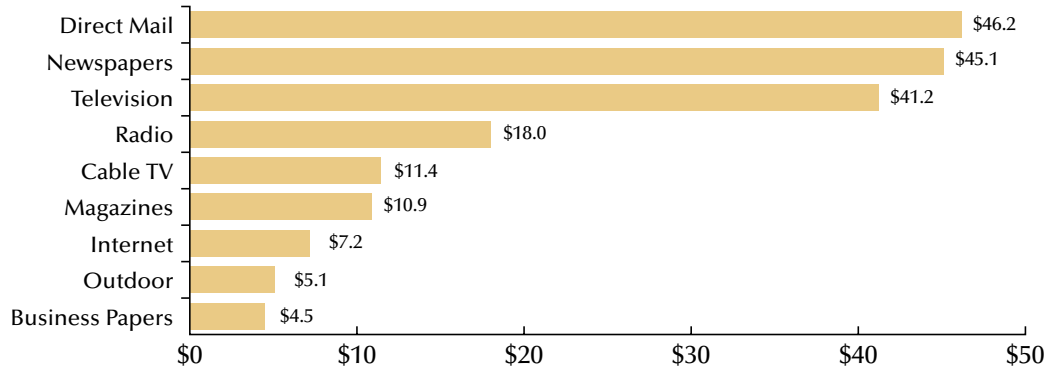
Internet Ad Revenues by Publisher Content Genre



Internet Advertising Increasing Market Share

- ◆ Internet ad revenues accounted for approximately 3.1 percent of total U.S. ad spending in 2001, down from approximately 3.7 percent in 2000.
- ◆ Internet advertising surpassed a couple of traditional media sectors since reporting in 1996 (e.g., outdoor, business/trade publications).

2001 U.S. Advertising Spending* = \$237 Billion

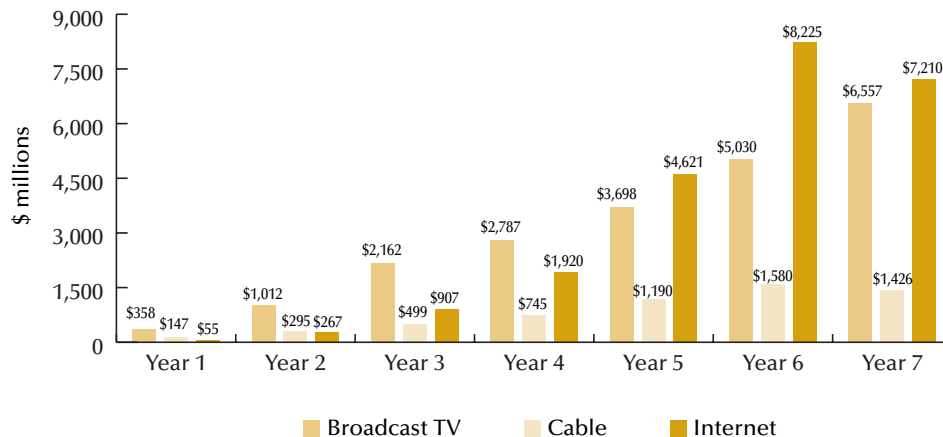


Sources: IAB/PwC Revenue Report; McCann-Erickson (*2001 results are estimates)

Internet Advertising Growth Measures Favorably against Broadcast and Cable Television

- ◆ The first seven years of Internet advertising (1995-2001) were charted against broadcast television (1949-1955) and cable television (1980-1986), presented in current dollars.
- ◆ Internet advertising revenues surpassed cable television revenues in its fourth year of growth, broadcast television revenues in its fifth year of growth, and widened the gap significantly in its sixth year of growth.

Comparative U.S. Advertising Media Annual \$ Revenue Growth* (First 7 years)



* Adjusted for inflation

Source: IAB/PwC Revenue Report; McCann-Erickson

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 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	Greg Stuart	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.	Dave Hills
AOL Interactive Marketing	Lon Otremba
B2B Works	Bill Furlong
CondéNet	Sarah Chubb
DoubleClick, Inc.	Jeffrey Silverman
eBay	Brian Cowley
The Excite Network	Bill Daugherty
Forbes.com	James Spanfeller
Gemstar-TV Guide International, Inc.	Jeffrey Mahl
iVillage, Inc.	Vanessa Benfield
MSN	Jed Savage
Net Creations, Inc	Michael Mayor
New York Times Digital	Martin Nisenholz
Overture Services, Inc.	Ted Meisel
RealNetworks, Inc.	Dan Schwartz
Snowball.com	Rick Boyce
Sportsline.com	Mark Mariani
TerraLycos	Rich Gotham
United Online	Mark Goldston
The Wall Street Journal Online	Randy Kilgore
Vindigo, Inc.	Jason Devitt
Walden VC	Rich LeFurgy
Yahoo!, Inc.	Wenda Harris Millard

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.Group

