

# *IAB Internet Advertising Revenue Report*



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

2003 Full-Year Results

April 2004



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# *Background*

## About the IAB Internet Advertising Revenue Report

Conducted by the New Media Group of PricewaterhouseCoopers LLP 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 LLP 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, as well as other companies selling on-line advertising.

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

Tom Hyland  
Partner, New Media Group Chair  
PricewaterhouseCoopers LLP

Pete Petrusky  
Director, New Media  
PricewaterhouseCoopers LLP

# Executive Summary

## IAB Internet Advertising Revenue Report 2003 Full-Year Highlights

Key trends underlying 2003 full-year results:

**Revenues Rise Sharply** – Internet advertising revenue in the U.S. totaled nearly \$2.2 billion in the fourth quarter of 2003, up more than 38 percent from the same period in 2002. Internet advertising for all of 2003 totaled just under \$7.3 billion, up nearly 21 percent from the 2002 total of \$6.0 billion, and marked the first year-over-year annual increase since 2000. Revenues for the fourth-quarter of 2003 also experienced a healthy sequential increase of nearly 22 percent over the third quarter.

*“In light of a seeming malaise in the advertising industry at large, we are gratified that the dynamism that our industry continues to demonstrate is clearly not being lost on marketers and advertising agencies.”*

– Greg Stuart, IAB President and CEO

**Continued Diversification in Advertising Formats** – keyword search revenue increased significantly from 15 percent of 2002 revenues to 35 percent of 2003 revenues. Classifieds revenue totaled 17 percent of 2003 revenues, up from 15 percent reported in 2002, while rich media advertising accounted for 8 percent of the 2003 revenues, up from 5 percent reported in 2002. Display advertising (ad banners) accounted for 21 percent of total 2003 revenues, down from the 29 percent reported in 2002.

*“The changes in the way that advertisers are integrating Internet advertising into their overall efforts is indicative of the growing maturity of the medium. We look for the continued evolution of new and effective ad formats to aid in the growth of the sector, as marketers recognize the unique opportunities that are offered in the medium.”*

– Tom Hyland, Partner, PricewaterhouseCoopers LLP

**Consumer Advertisers Continue to Lead Spending** – consumer brand advertisers represented the largest category of advertiser spending at 37 percent of 2003 revenues, up from 32 percent reported in 2002. Computing advertisers, the second-largest category, accounted for 20 percent, followed by financial services companies at 12 percent. Within the consumer category the biggest sub-categories are retail (41 percent of the consumer category), automotive (21 percent), and travel (17 percent).

*“The increased strength in consumer spending categories relative to other sectors underscores the acceptance of online advertising by traditional advertisers and consumers alike.”*

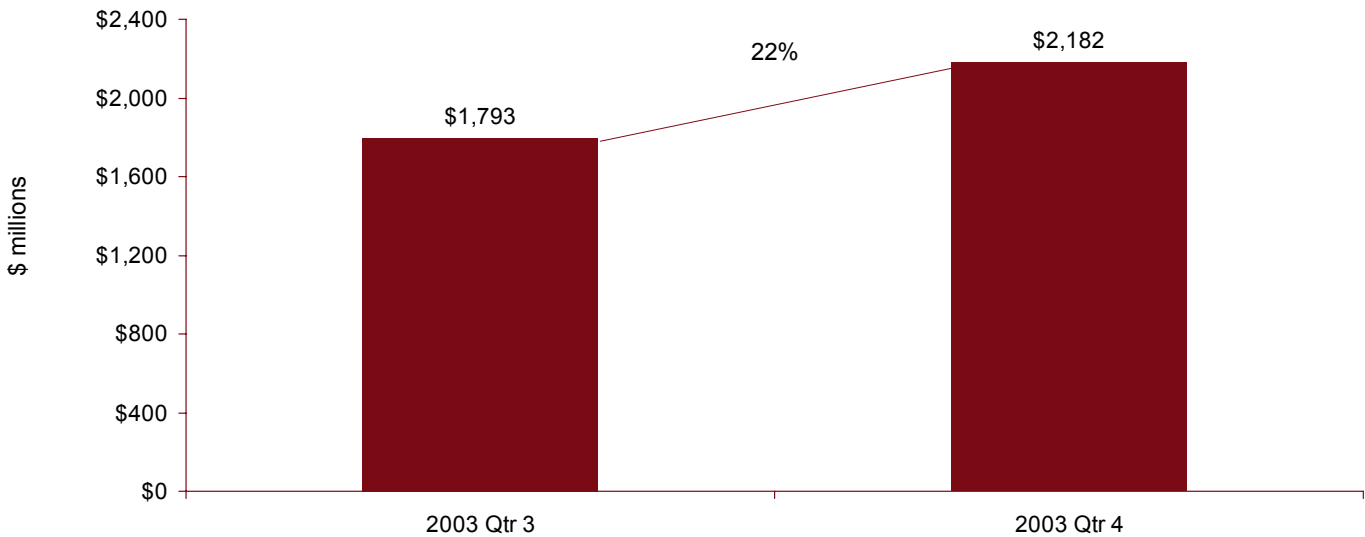
– Pete Petrusky, Director, PricewaterhouseCoopers LLP

# Detailed Findings

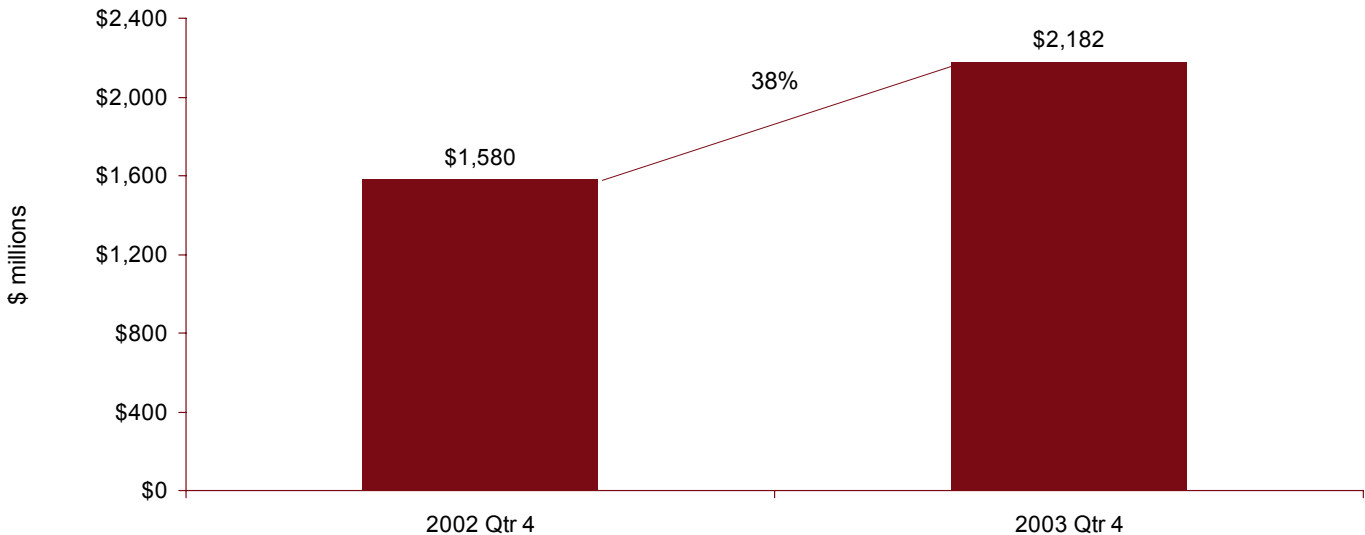
## Revenues Totaled Nearly \$2.2 Billion in the Fourth Quarter of 2003

- On-line ad sellers reported aggregate revenues totaling \$2.2 billion for the fourth quarter of 2003, marking the first consecutive four-quarter revenue increase since 1999.
- Total 2003 fourth-quarter revenues were \$602 million or 38.1 percent higher than the fourth quarter of 2002, and \$389 million or 21.7 percent higher than the third quarter of 2003.

**2003 Q3 vs. 2003 Q4**



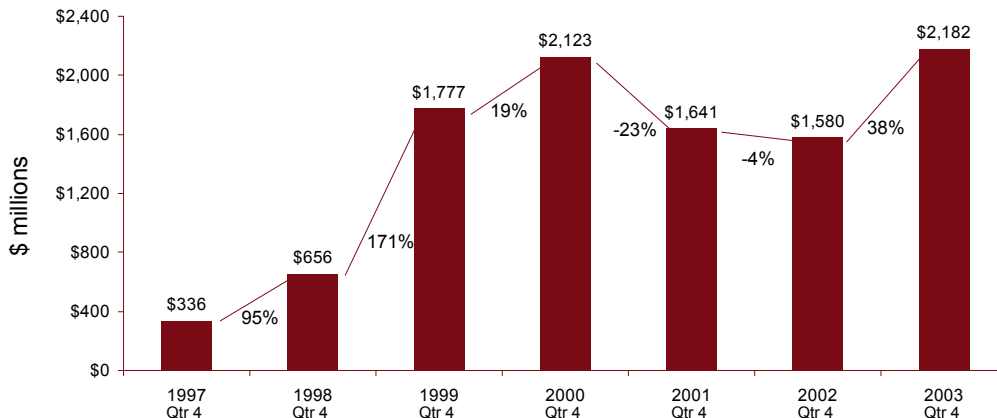
**2002 Q4 vs. 2003 Q4**



## Historical Fourth-Quarter Revenue Trends

- Fourth-quarter revenues increased significantly on a year-over-year percentage and dollar basis between 1997 and 2000, scaled back considerably in 2001 and 2002, and rebounded in 2003.
- Fourth-quarter revenues accounted for 30 percent of 2003 total revenues compared to 26 percent in 2002.

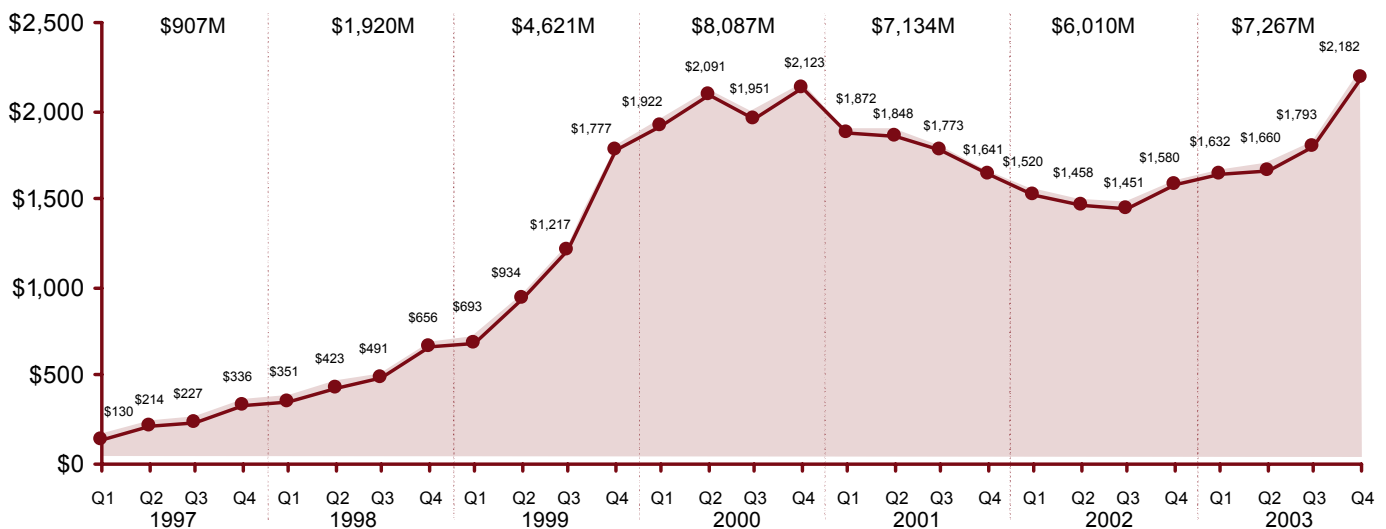
**Fourth-Quarter \$ Revenue Comparisons – 1997 through 2003**



## Revenues Experience Sharp Rebound

- Quarterly industry revenues historically exhibited a seasonal growth pattern where the strongest growth occurs during the second and fourth quarters.
- 2003 fourth-quarter revenues recorded the highest revenue total since reporting began in 1996.
- The 2001 and 2000 revenue data used for comparative purposes in this report were adjusted to reflect revenue restatements reported in public filings by several individual companies. Those reported restatements totaled \$77 million in 2001 and \$138 million in 2000. Historical industry revenue figures are now adjusted to \$7.134 billion in 2001 and \$8.087 billion in 2000.

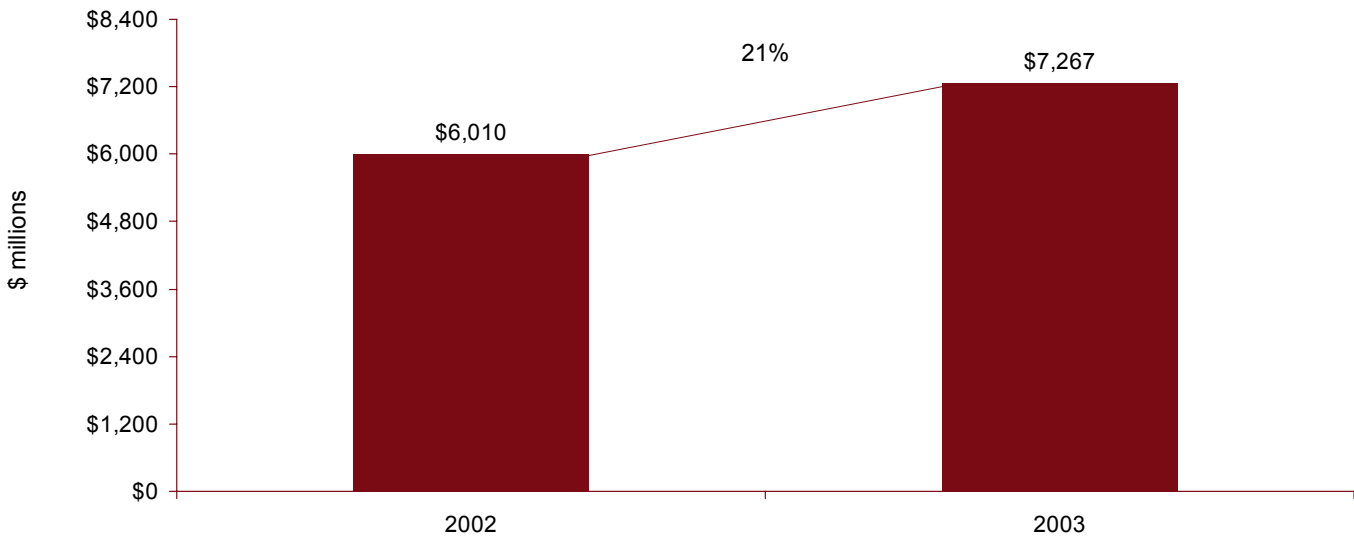
**Quarterly \$ Revenue Growth Comparisons – 1997-2003**



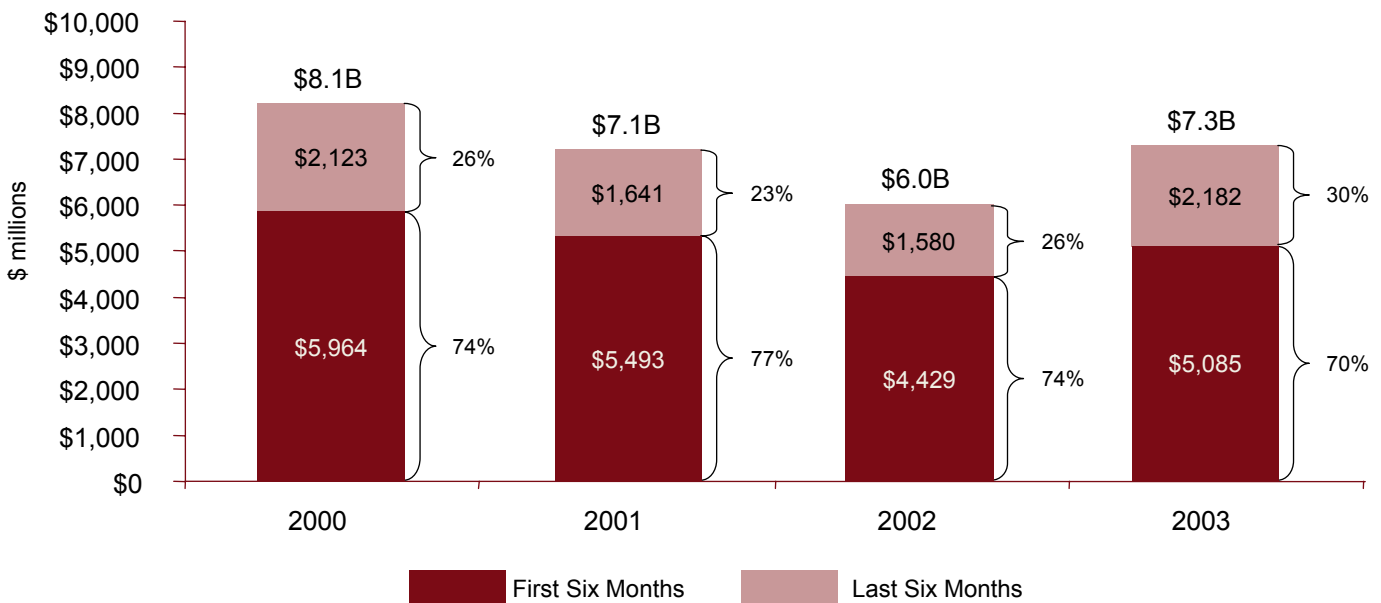
## 2003 Annual Revenues Totaled Nearly \$7.3 Billion

- Full-year revenues for 2003 totaled nearly \$7.3 billion, \$1.3 billion or 20.9 percent higher than full-year revenues for 2002.
- 2003 fourth-quarter revenues accounted for approximately 30 percent of 2003 total annual revenues, and marked the highest quarterly revenue in reporting history.

**Full-Year Revenue 2002 vs 2003**



**Historical Fourth Quarter Revenue Shares Comparison – 2000 through 2003**



## Historical Revenue Performance

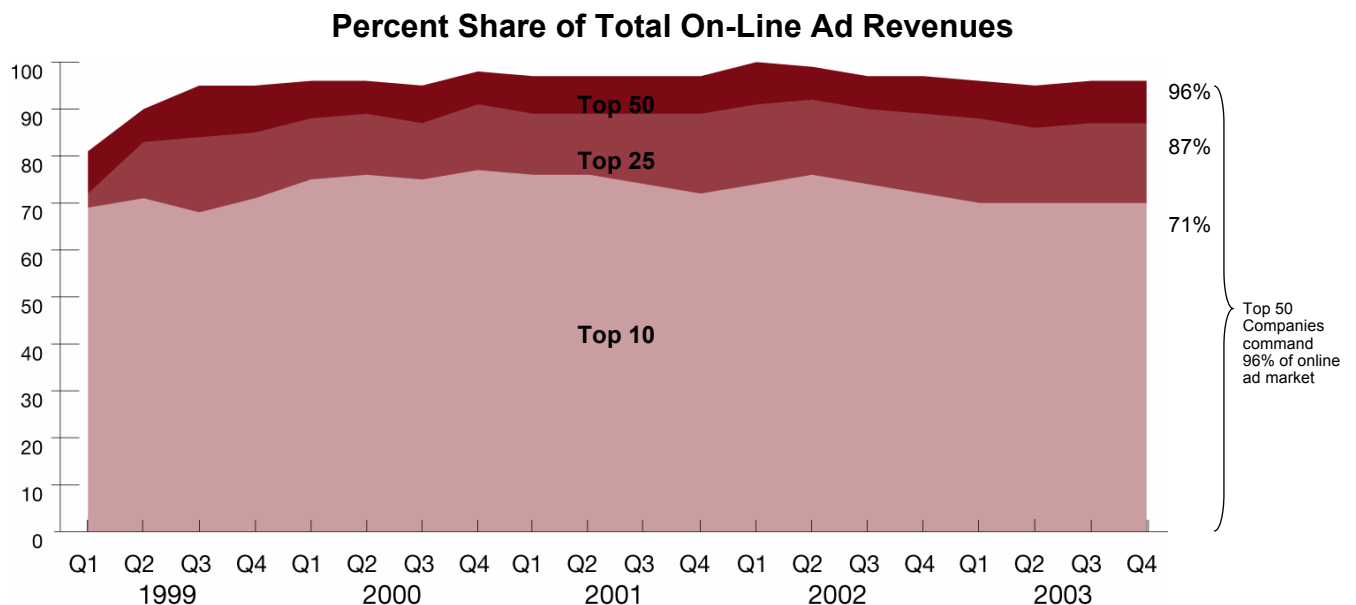
### Annual and Quarterly Revenue Growth Comparisons

	\$ 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>

	\$ Rev Millions	% GROWTH	
		Qtr/Qtr	Year/Year
1Q00	\$1,922	8%	177%
2Q00	\$2,091	9%	123%
3Q00	\$1,951	-7%	60%
4Q00	\$2,123	9%	22%
<b>Total 2000</b>	<b>\$8,087</b>		<b>75%</b>
1Q01	\$1,872	-12%	-3%
2Q01	\$1,848	-1%	-12%
3Q01	\$1,773	-4%	-10%
4Q01	\$1,641	-7%	-23%
<b>Total 2001</b>	<b>\$7,134</b>		<b>-12%</b>
1Q02	\$1,520	-7%	-19%
2Q02	\$1,458	-4%	-21%
3Q02	\$1,451	-1%	-18%
4Q02	\$1,580	9%	-4%
<b>Total 2002</b>	<b>\$6,010</b>		<b>-16%</b>
1Q03	\$1,632	3%	7%
2Q03	\$1,660	2%	14%
3Q03	\$1,793	8%	24%
4Q03	\$2,182	22%	38%
<b>Total 2003</b>	<b>\$7,267</b>		<b>21%</b>

## Industry Revenue Concentration Declines Slightly

- On-line advertising remains concentrated with the ten leading ad-selling companies, which accounted for 71 percent of total revenues in the fourth quarter of 2003, down slightly from 72 percent reported for the fourth quarter of 2002.
- Companies ranked 11th to 25th accounted for 16 percent of revenues for the fourth quarter of 2003. Companies ranked 26th to 50th accounted for 9 percent in the fourth quarter of 2003.



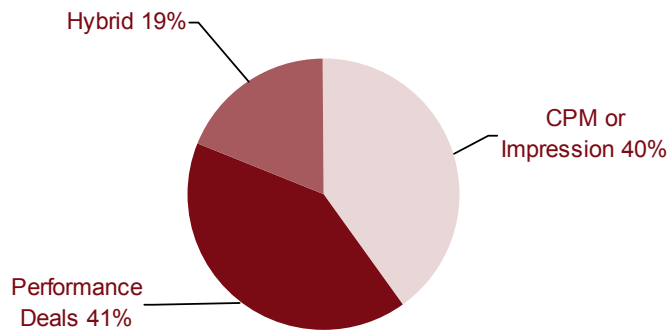


## Performance-Based Pricing Continues to Rise

- Approximately 40 percent of 2003 fourth-quarter revenues were priced on a CPM or impression basis (includes sponsorships), down from 46 percent reported for the fourth quarter of 2002.
- Approximately 41 percent of 2003 fourth-quarter revenues were priced on a straight performance basis (e.g., cost-per-click, sale, lead of straight revenue share), up sharply from 26 percent reported for the same period in 2002.

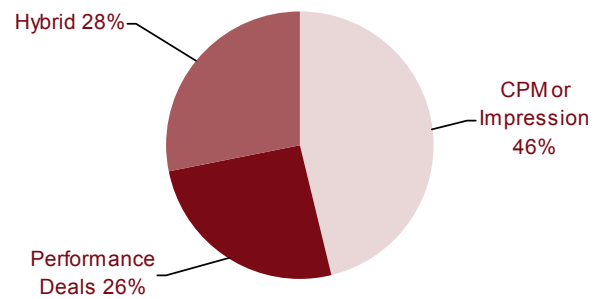
## Internet Ad Revenues by Pricing Model

**% of 2003 Fourth-Quarter Revenues**



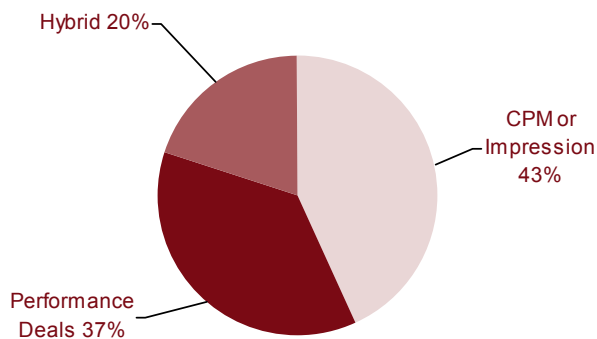
**Total – \$2.2 Billion**

**% of 2002 Fourth-Quarter Revenues**



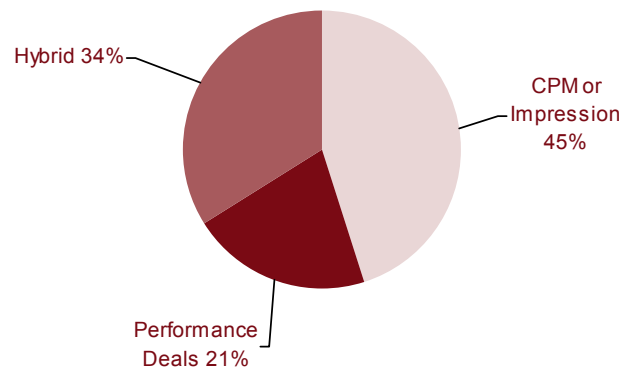
**Total – \$1.6 Billion**

**% of 2003 Full-Year Revenues**



**Total – \$7.3 Billion**

**% of 2002 Full-Year Revenues**



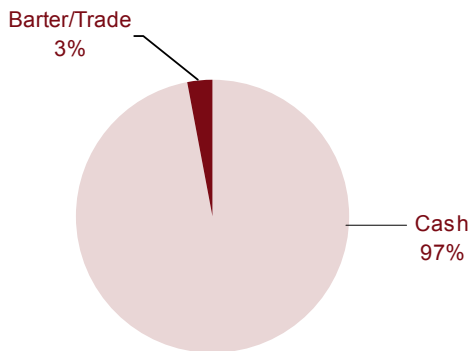
**Total – \$6.0 Billion**

## Cash Deals Increase

- Approximately 97 percent of total Internet advertising revenues generated in the fourth quarter of 2003 were reported as cash deals, up from the 90 percent reported for the fourth quarter of 2002. Cash deals accounted for 96 percent of total 2003 revenues, up from 90 percent reported for the year 2002.
- Barter or trade deals accounted for 3 percent of total 2003 fourth-quarter revenues. The actual volume of non-cash deals is most likely higher than the dollar activity reported.

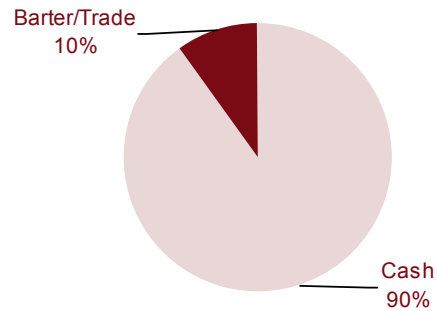
### Internet Ad Revenues by Transaction

**% of 2003 Fourth-Quarter Revenues**



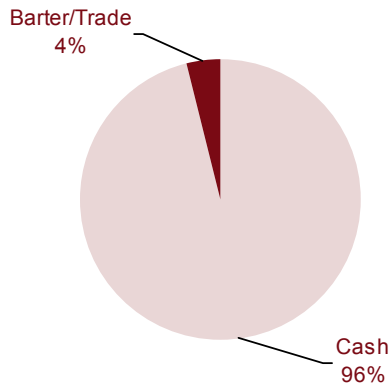
**Total – \$2.2 Billion**

**% of 2002 Fourth-Quarter Revenues**



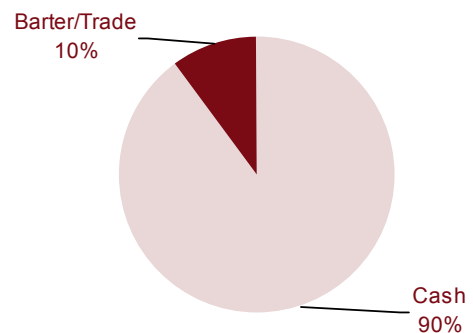
**Total – \$1.6 Billion**

**% of 2003 Full-Year Revenues**



**Total – \$7.3 Billion**

**% of 2002 Full-Year Revenues**

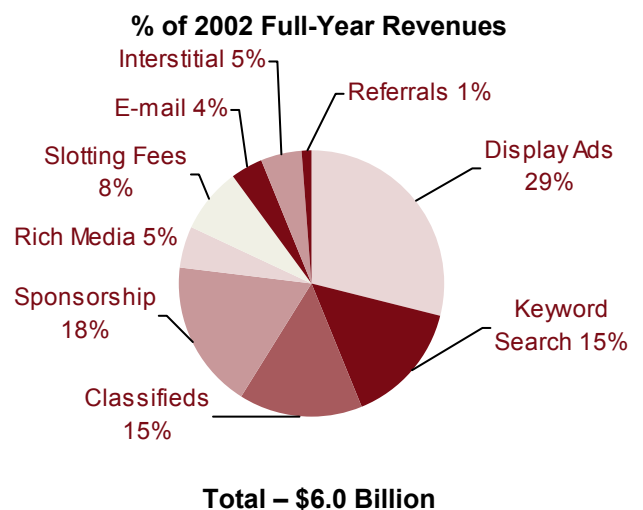
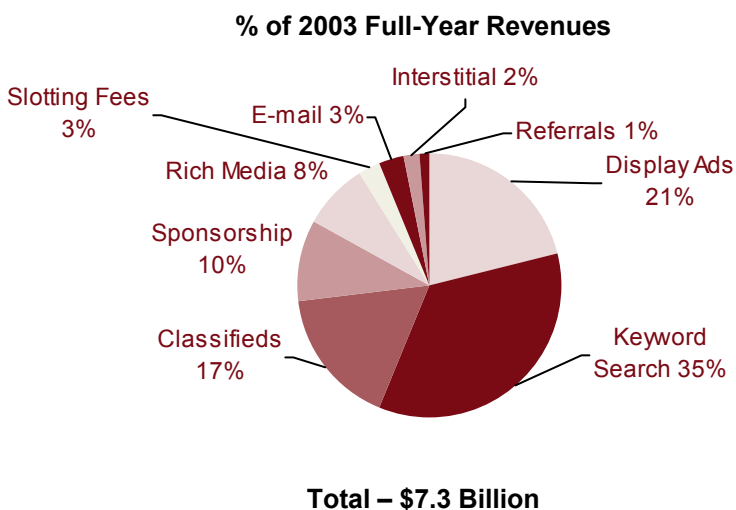
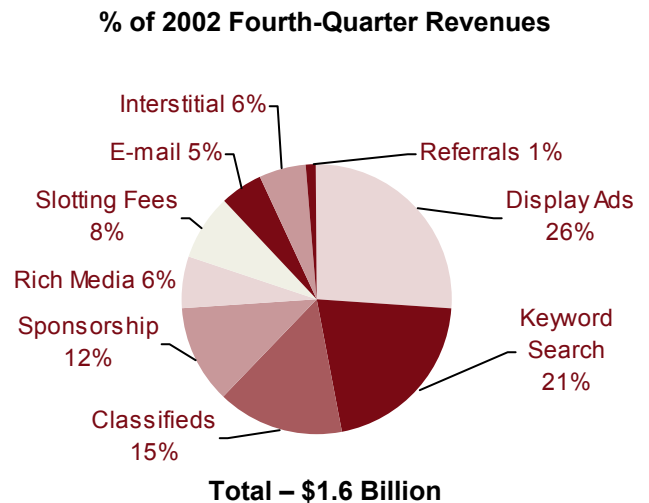
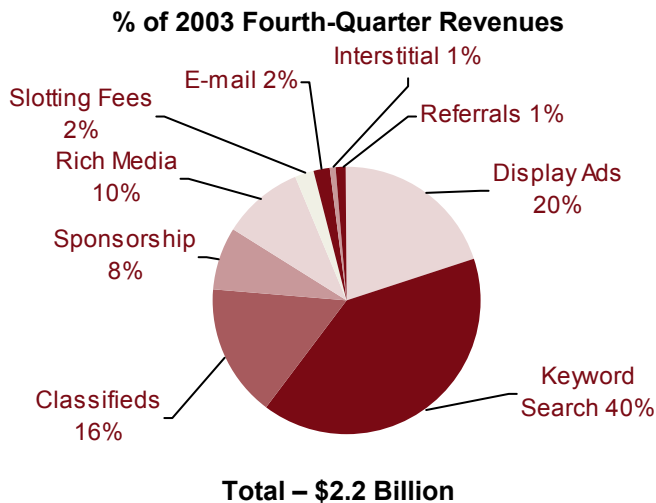


**Total – \$6.0 Billion**

## Search Format Continues to Rise

- Keyword search reserves accounted for 40 percent of 2003 fourth-quarter revenues, up from 21 percent for the same period in 2002.
- Display ads accounted for 20 percent of total revenues during the fourth quarter of 2003, down from the 26 percent reported in the fourth quarter of 2002. On a full-year basis, display ads accounted for 21 percent of total revenues in 2003, down from the 29 percent reported for the full year of 2002.
- Sponsorships generated 8 percent of revenues during the fourth quarter of 2003, down from the 12 percent reported for the fourth quarter of 2002.
- Classifieds accounted for 16 percent of 2003 fourth-quarter revenues, up slightly from the same period in 2002. Rich media advertising accounted for 10 percent of 2003 fourth-quarter revenues, up sharply from the 6 percent reported for the same period in 2002.

## Internet Ad Revenues by Advertising Vehicle

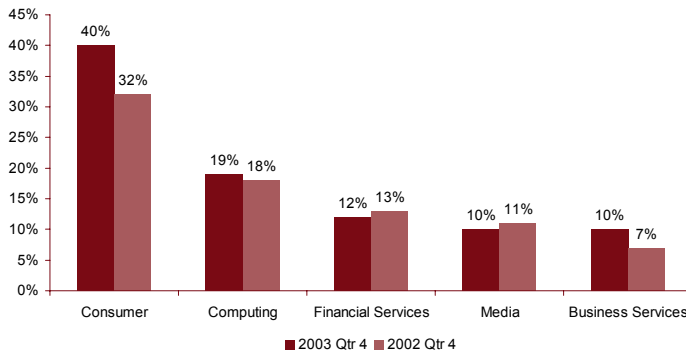


## Internet Advertising Remains Concentrated in Five Industry Sectors

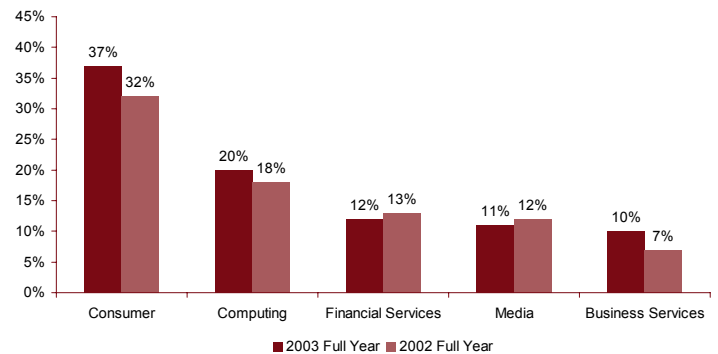
- Five industry sectors accounted for 91 percent of total 2003 fourth-quarter revenues, up from 81 percent for the same period for 2002. Consumer advertisers represented the largest category of spending, accounting for 40 percent of 2003 fourth-quarter revenues, up from 32 percent for the same period in 2002.
- Computing advertisers represented the second-largest category of spending at 19 percent of 2003 fourth-quarter up slightly from the 18 percent reported in the fourth-quarter of 2002. Financial Services advertisers represented the third-largest category of spending at 12 percent of 2003 fourth-quarter revenues, down from 13 percent reported in the fourth quarter of 2002.
- Retail and Automotive companies, at 39 and 22 percent, respectively, together accounted for 61 percent of 2003 fourth-quarter consumer-related revenues, followed by Travel at 20 percent, entertainment at 13 percent and Packaged Goods at 6 percent.

### Internet Ad Revenues by Major Industry Category

2003 Q4 vs. 2002 Q4

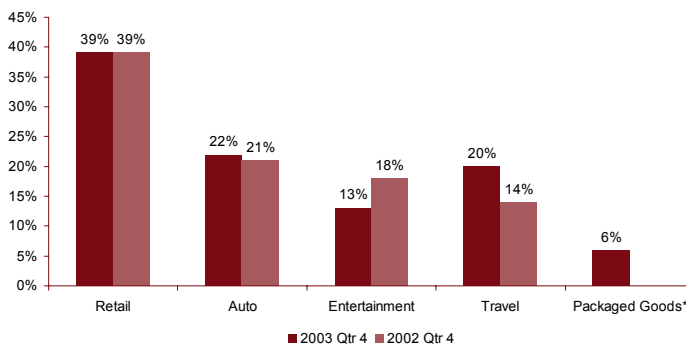


2003 Full-Year vs. 2002 Full-Year

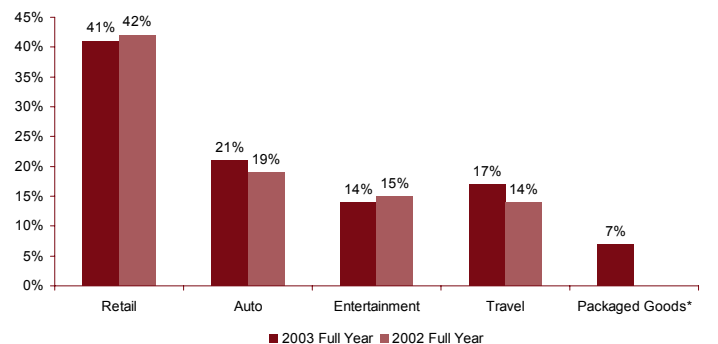


### Internet Ad Revenues by Major Consumer Category

2003 Q4 vs. 2002 Q4



2003 Full-Year vs. 2002 Full-Year

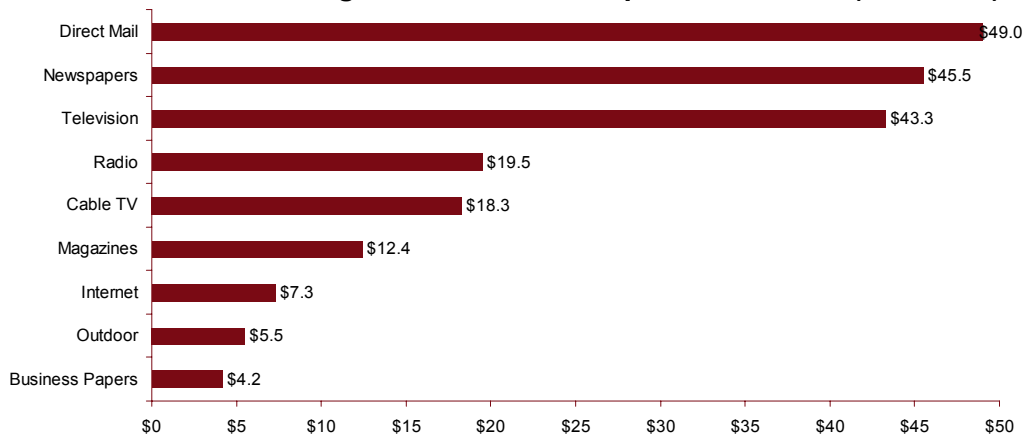


\* Data item introduced in 2003.

## Internet Advertising Spend vs Other Advertising Sectors

- Internet advertising revenues accounted for approximately 3 percent of total U.S. ad spending in 2003, up from approximately 2.5 percent in 2002.
- Internet advertising surpassed a couple of traditional media sectors since reporting in 1996, but trails the next sector, magazines, by a considerable margin.

**Overall U.S. Advertising Market-Media Comparisons – 2003 (\$ Billions)**

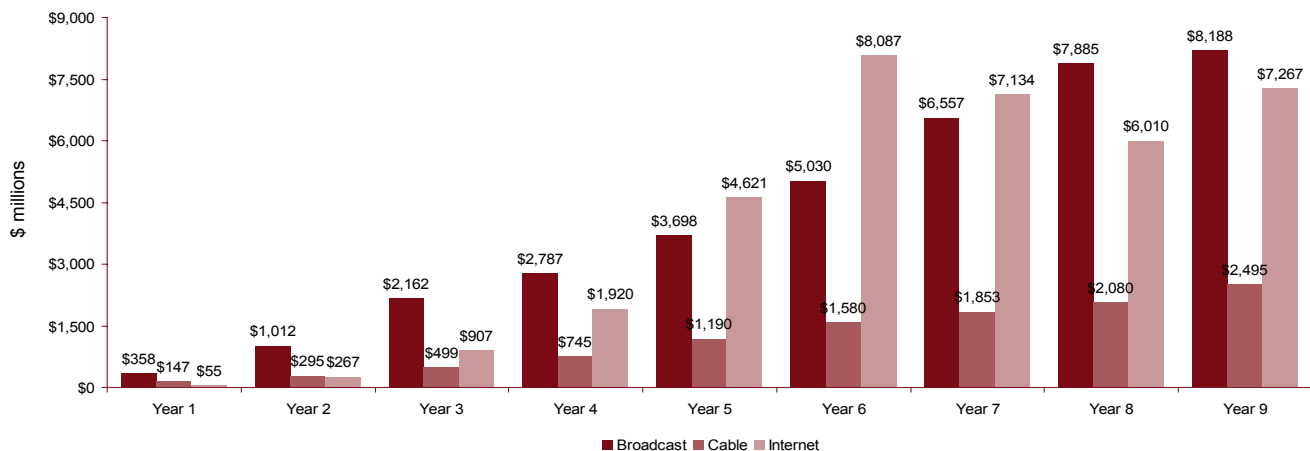


Sources: PwC/IAB Internet Ad Revenue Report; McCann-Erickson

## Initial Year Growth Comparisons – Internet Advertising vs. Broadcast and Cable Television

- The first nine years of Internet Advertising (1995-2003) were charted against broadcast television (1949-1957) and cable television (1980-1988), presented in current dollars.
- Internet advertising revenues surpassed cable television revenues in its fourth year of growth, and broadcast television revenues in its fifth year of growth. However, broadcast television revenues regained the lead in year eight.

**Annual \$ Ad Revenue Growth – First 9 Years**



Sources: IAS/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 business-to-business companies rendering services to business establishments on a contract or fee basis, including advertising.

**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.

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\* 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.
  - The 2001 and 2000 full-year revenue data were adjusted to reflect revenue restatements reported in public filings by several individual companies. Those reported restatements totaled \$77 million in 2001 and \$138 million in 2000. Historical industry revenue figures are now adjusted to \$7.134 billion in 2001 and \$8.087 billion in 2000.

## 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

**Chairman**

**Steve Wadsworth**  
The Walt Disney Internet Group

**President & CEO**

**Greg Stuart**  
Interactive Advertising Bureau

**Treasurer**

**Karen Messineo**  
New York Times Digital

**Secretary**

**David Moore**  
24/7 Real Media, Inc

**Member at Large**

**Wenda Harris Millard**  
Yahoo! Inc.

**Vice Chairman**

**James Spanfeller**  
Forbes.com

**IAB Chairman Emeritus**

**Shelby Bonnie**  
CNET

**IAB Founding Chairman**

**Rich LeFurgy**  
Archer Advisors

**Member at Large**

**Joanne Bradford**  
MSN

### IAB Board of Directors

**Tim Armstrong**

Google

**Greg Stuart**

IAB

**Michael Barrett**

AOL

**Jeffrey Schwartz**

Autobytel Inc.

**Sarah Chubb**

CondéNet

**Deborah Wilson**

Weather.Com

**David Moore**

24/7 Real Media. Inc

**Pat Marshall**

Verizon SuperPages

**Jeff Webber**

USATODAY.com

**Randy Kilgore**

Wall Street Journal Online

**Shelby Bonnie**

CNET Networks

**Joanne Bradford**

MSN

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Yahoo! Inc.

**Jason Devitt**

Vindigo

**Rich LeFurgy**

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**Peter Naylor**

iVillage, Inc.

**Scot McLernon**

CBS MarketWatch

**James Spanfeller**

Forbes.com

**Martin Nisenholtz**

New York Times Digital

**Michael Mayor**

NetCreations Inc

**Steve Wadsworth**

The Walt Disney Internet Group

**Bill Daugherty**

Focus Interactive

**Javier Saralegui**

Univision Online

**Mark Mariani**

SportsLine.com

**Matt Moog**

CoolSavings

### About the Interactive Advertising Bureau

Founded in 1996, the Interactive Advertising Bureau (IAB) represents leading interactive companies that are actively engaged in, and support the sale of interactive advertising. IAB members are responsible for selling over 85% of on-line advertising in the United States. IAB member companies include: AOL, CNET Networks, DoubleClick, MSN, Google, Overture, The Walt Disney Internet Group, Yahoo! and over 100 others. On behalf of its members, the IAB evaluates and recommends standards and practices, fields interactive effectiveness research and educates the advertising industry regarding the use of interactive advertising. For more information on the IAB, please visit [www.iab.net](http://www.iab.net).



# PricewaterhouseCoopers New Media Group

PricewaterhouseCoopers LLP ([www.pwc.com](http://www.pwc.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 LLP 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 Four 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:

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

**PricewaterhouseCoopers LLP 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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