

online publishers association

ONLINE PAID CONTENT U.S. MARKET SPENDING REPORT








Conducted in partnership with



This report covers Q2 and Q3 2002

December 2002

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INTRODUCTION

Since the release of our first comScore/OPA Paid Content report back in August 2002, the Dow Jones Industrial average has drifted slightly downward while the U.S. economy continued to sputter along, showing only occasional glimmers of life. Remarkably, during this period of general economic stagnation, the market for online paid content in the U.S. maintained its stunning year-over-year growth rates. In both Q2 and Q3 2002, U.S. consumer spending for online paid content grew by more than one hundred percent over the corresponding quarters in 2001.

Through the first three quarters of 2002, U.S. consumer spending for paid online content totaled nearly a billion dollars, up from the full-year 2001 total of less than \$700 million. Consumer acceptance also rose significantly, with more than 1 in 10 online users now paying for some form of content online.

Many other interesting developments within this burgeoning category of the online publishing business are detailed in this second installment of our Paid Content report. Perhaps the most noteworthy finding is the ascendance of Personals/Dating to the top category of paid content spending in Q3 2002, ahead of both Entertainment/Lifestyle programming and Business/Investment content. All three of those categories continue to experience rapid growth, accounting for 62% of all paid content revenue year-to-date in 2002. Also of note is the dramatic growth in micropayment transactions, up from \$279,000 in Q3 2001 to \$3.1 million in Q3 2002, though this business model still accounts for only a small fraction of all paid content spending.

Publication of our first Paid Content report elicited great interest and gave rise to a few suggestions about methodology and definitions; some are addressed herein, and others will be addressed when our next installment, covering the full year of 2002, is released. We expect that report in early 2003.

In the meantime, we hope you find this report covering Q2 and Q3 2002 useful, and we continue to welcome your comments and suggestions.

Yours truly,

Michael Zimbalist
Executive Director
Online Publishers Association

EXECUTIVE SUMMARY

Spending for online content continues to grow rapidly

- 👤 The total market for paid online content in the U.S. grew to \$361.4 million for the quarter, a 14 percent gain over the previous quarter and a 105.3 percent gain over Q3 2001.
- 👤 U.S. consumers spent \$975 million for online content in the first three quarters of 2002 vs. only \$670 million for online content in all of 2001.

Consumer acceptance shows solid year-over-year growth

- 👤 The number of U.S. consumers paying for online content in Q3 2002 nearly doubled to 14.8 million from 7.9 million in Q3 2001.
- 👤 More than 1 in 10 online users in the U.S. paid for content in the quarter.
- 👤 The total U.S. online population grew 6.4% from Q3 2001 to 138 million users in Q3 2002, while the number of paid content consumers grew 86% over the same period.

Personals/Dating category takes the lead in Q3 2002

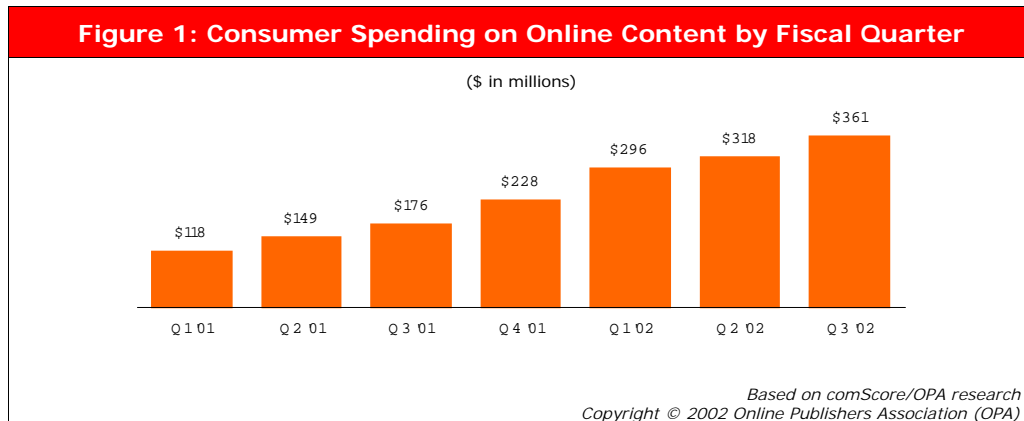
- 👤 The Personals/Dating category surpassed Business/Investing content to become the leading paid content category, with \$87 million in revenues, a 387% gain over the same quarter last year.
- 👤 The top three categories (Business Content/Investment, Entertainment/Lifestyles and Personals/Dating) accounted for 62 percent of all paid content revenues in the first three quarters of 2002.

Business/pricing models are still evolving

- 👤 In Q3 2002, nearly every pricing model experienced triple digit growth over Q3 2001.
- 👤 Single-purchase transactions rose to more than \$56 million, a gain of 132 percent over Q3 2001.
- 👤 General News showed phenomenal growth in single purchases, going from \$604,000 in all of 2001 to almost \$9 million in just the first three quarters of 2002. The single-purchase growth in that category came primarily in the \$5-\$49.99 price range.
- 👤 Single purchases of content priced at \$50 or more had a year-over-year growth rate of 125 percent.
- 👤 Micropayments brought in more than \$3.1 million in Q3 2002, a more than ten-fold year-over-year growth rate.

RESEARCH DETAILS

Spending for Online Content Continues to Grow Rapidly

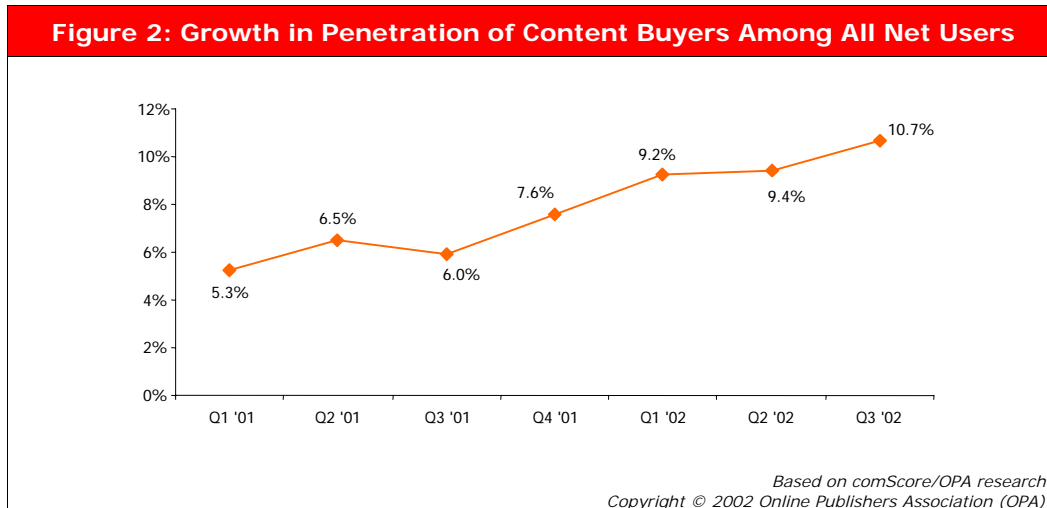


The total market for paid online content in the U.S. grew to \$361.4 million for the third quarter, a 14 percent gain over the previous quarter.

Though annual growth peaked in the first quarter of 2002 at 152 percent, growth was still robust in the second and third quarters, with year-over-year growth of 114 percent and 105 percent, respectively.

Consumer spending on online content YTD totaled \$975 million vs. only \$670 million in all of 2001.

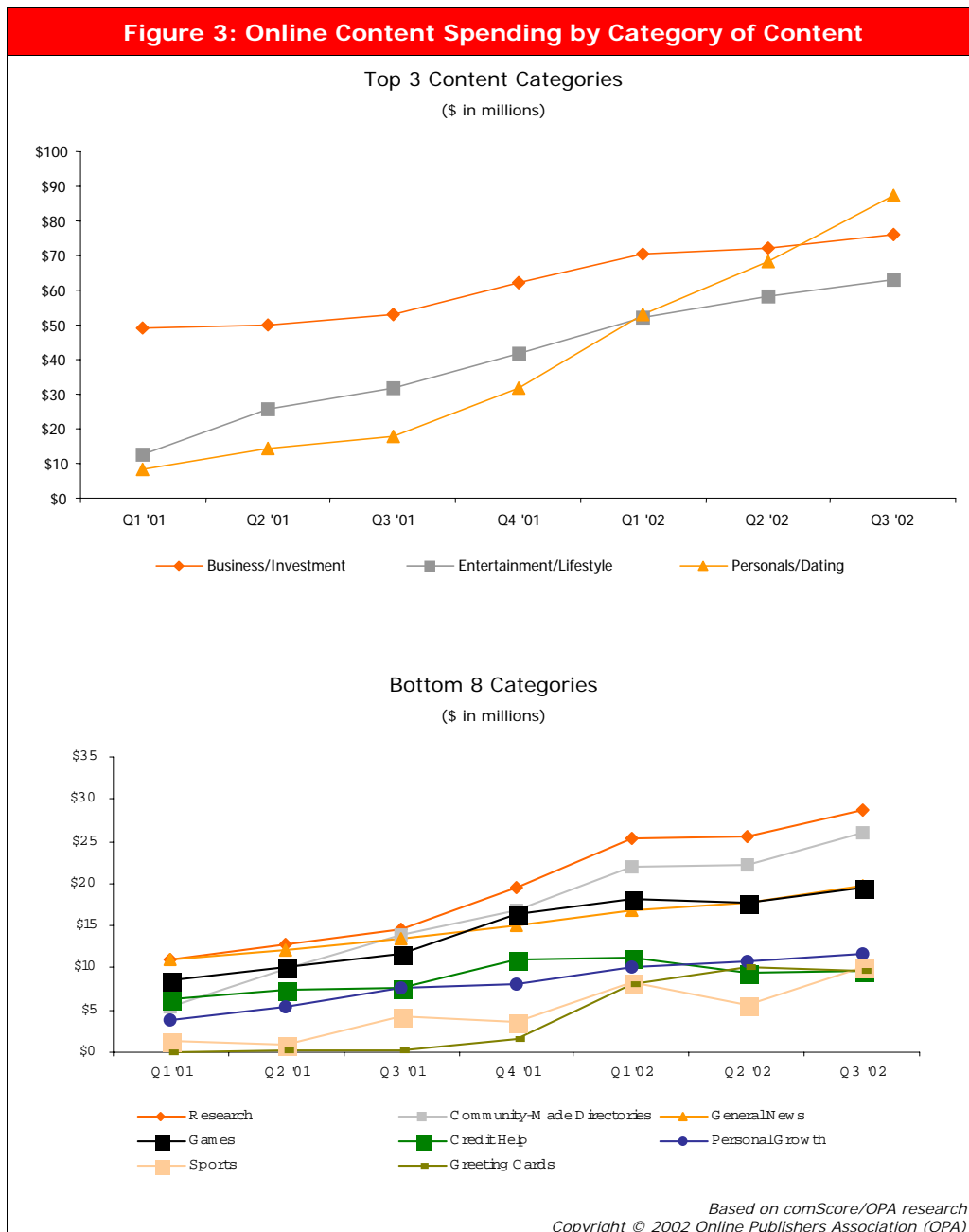
Consumer Acceptance Shows Solid Year-Over-Year Growth



In Q3 2002 the total U.S. online population grew 6.4 percent from Q3 2001 to 138 million users. In that same quarter, the number of paid content consumers grew 86 percent.

The number of U.S. consumers paying for online content in Q3 2002 nearly doubled to 14.8 million from 7.9 million in Q3 2001. That means more than 1 in 10 people online paid for content in the quarter.

Personals/Dating Category Takes the Lead in Q3 2002

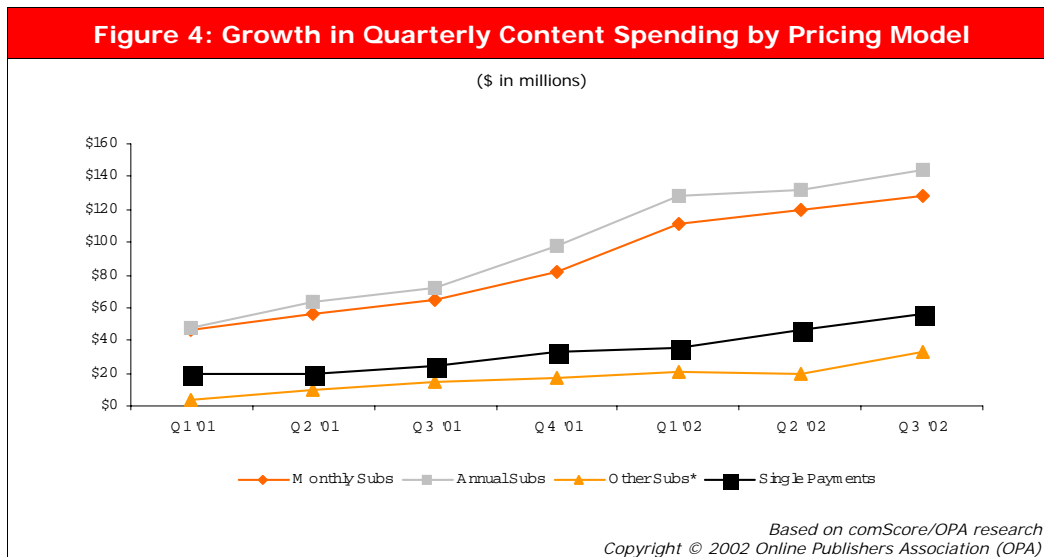


The Personals/Dating category surpassed both Business/Investment and Entertainment/Lifestyles to become the leading paid content category in Q3 2002, recording more than \$87 million for the quarter, up 387% over the same quarter last year.

The top three categories (Business Content/Investment, Entertainment/Lifestyles and Personals/Dating) accounted for 62 percent of all paid content revenues in the first three quarters of 2002 (or about \$600 million of the \$975 million total).

A definition of each category is provided in Appendix B.

Business/Pricing Models are Still Evolving



In Q3 2002, nearly every pricing model experienced triple-digit growth compared to Q3 2001.

While single-purchase transactions grew a bit faster in Q3 2002, rising 132% over Q3 2001 to \$56 million, subscriptions still made considerable gains. If there is any trend in subscription length, it's that anything still goes.

Figure 5: Proportion of Single Purchase to Subscription Sales by Content Category (% of total paid content dollars) Q1-Q3 2002

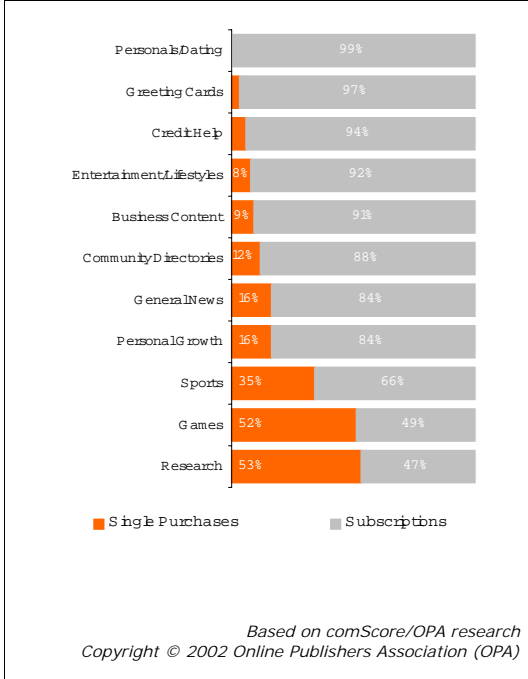
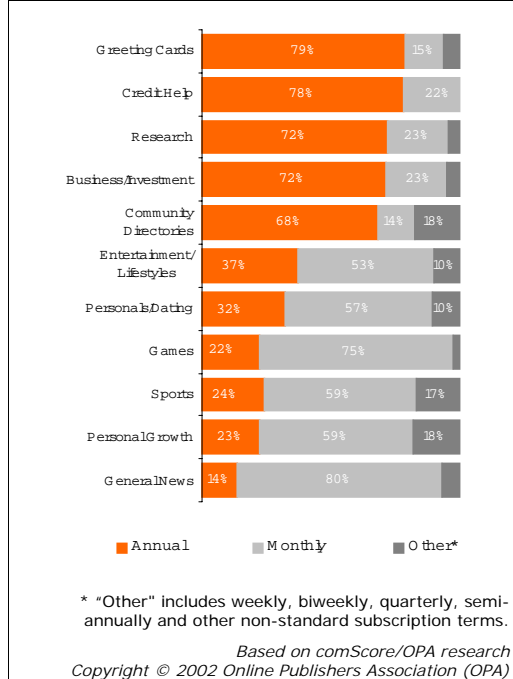
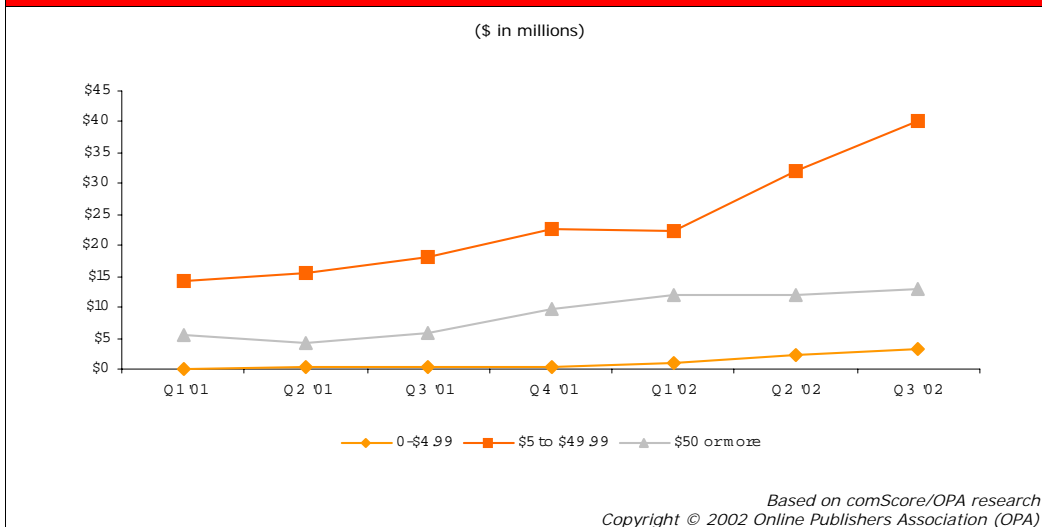


Figure 6: Types of Subscriptions by Content Category (% of subscription dollars) Q1-Q3 2002



While the Research category continued to lead all categories in single-purchase revenues YTD in 2002, General News showed phenomenal growth in single purchases, going from \$604,000 in all of 2001 to almost \$9 million in just the first three quarters of 2002.

Figure 7: Growth in Quarterly Spending by Single Purchase Price Bracket

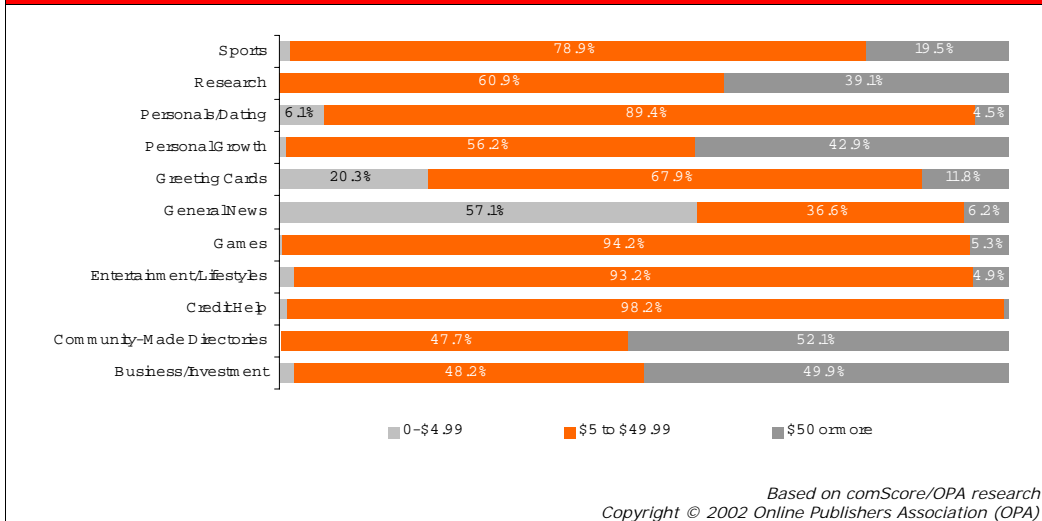


Though single-purchase transactions made up only 14.2 percent of all revenues in the first three quarters of 2002, they showed phenomenal growth across all price points.

Single purchases of content priced at \$50 or more had a year-over-year growth rate of 125 percent, while content priced in the sweet spot of \$5-\$49.99 experienced 122 percent growth.

Micropayments of under \$5 started to gain momentum, growing to more than \$3 million in Q3 2002, an astonishing ten-fold year-over-year growth rate.

Figure 8: Proportionality of Single Purchase Revenue by Price Bracket Q1-Q3 2002











While Micropayments were up incrementally in almost all categories, General News saw a drop in micropayments and a move to more purchases in the \$5-\$49.99 range. Micropayments in General News had made up 72 percent of single purchases in FY 2001, but that dropped to only 57.1 percent in the first three quarters of 2002.

APPENDIX A

Survey Scope and Methodology

comScore Networks (www.comscore.com) has a proprietary technology network that tracks all World Wide Web activity for its panel of 1.1 million active U.S. Internet users. This technology allows comScore to see (with panelists' permission) even "Secure Socket Layer" (SSL) browsing, including commerce transactions with dollar amounts. This system enabled comScore to observe actual online content purchases among its panelists and look back into its immense data warehouse at content transaction activities for all of 2001 through the first quarter of 2002. The OPA set the scope for the paid content universe principally through the following exclusions:

Excluded Content Categories

-  Pornographic sites
-  Gambling sites
-  Software purchases
-  Illegal drug-related sites
-  Get-quick-rich schemes and scams
-  Internet Service Providers
-  Business services, including electronic faxing and Web-based e-mail applications
-  Games for which subscriptions are purchased and played through a proprietary (non-web browser-based) software interface

Sites not excluded on this basis were then classified according to OPA content categories definitions (see Appendix B), and sites with sufficient transaction activity were classified into two Tiers for analysis. *Tier 1* sites included 52 large sites for which there is sufficient transaction activity to track reliably at a site-level. The analysis also includes observed transaction activity at a set of 43 *Tier 2* sites, which were analyzed at a category level to determine revenue contribution among mid-sized paid content vendors. All observations noted above were monitored for both Tier 1 and Tier 2 sites.

To supplement this analysis set, an analysis of visitor activity at a total of 132 known paid content sites was performed to assess the general distribution of online paid content spending within the marketplace. This set represents roughly 8% of the estimated 1,700 U.S. sites currently charging for content. In total, Tier 1 sites account for roughly 85% of revenue. Tier 2 sites account for between 10% and 12%, with the remainder accounted for by remaining sites.

All data are weighted and projected to represent the U.S. Internet online population, as determined by a weekly random-digit dial enumeration study.

The study covers seven quarterly time periods, including the full year of 2001 and the first three quarters of 2002. This seven-quarter range provides the basis for evaluating both annual revenue during 2001 and quarterly growth from the third quarter 2001 to the third quarter 2002.

Market size estimates required that incumbent subscriptions as of the study period (i.e., extant subscriptions prior to Q1 2001) be accounted for. This was accomplished by analyzing traffic volume to subscriber-only sections of a sampling of paid content sites at the beginning of 2001 relative to observed subscription sign-ups to estimate subscription share between new and existing subscriptions.

Since publication of our initial report (August 2002), single purchase revenue associated with digital gift certificates was removed from the greeting card category; therefore, numbers have been

restated. Also, the percentage of annual and monthly subscriptions was adjusted to account for a mathematical error.

APPENDIX B

Definitions of Content Categories

Business Content – Includes business news (e.g., WSJ.com), business research (e.g., eMarketer.com), investment advice (e.g., changewave.com) and digital content used for business purposes (e.g., ArtToday.com).

Community Directories – Includes sites whose content is created in large part through the efforts of other site visitors, for example, Ancestry.com, IMDB.com and Classmates.com.

Credit Help – Includes sites offering access to consumer credit history records and related content, for example ConsumerInfo.com and CreditExpert.com.

Entertainment/Lifestyles – Includes digital music and multimedia (e.g., Real.com and PressPlay.com), as well as erotica (e.g., Playboy.com), humor, recipes and other content intended for amusement, leisure and diversion.

Games – Includes online games that are played through a Web browser, both as distributed through portal sites (e.g., Yahoo! and Go.com), and offered direct through specialized gaming sites such as Alien Adoption Agency, Case's Ladder and The Well Dressed SIM.

General News – Includes sites like CNN.com, NYTimes.com and USAToday.com.

Greeting Cards – Includes sites like AmericanGreetings.com, BlueMountainArts.com and Hallmark.com. Single-purchase revenue in this category includes revenue generated from the attachment of gift certificates to content.

Personal Growth – Includes motivational and "self-betterment" sites, such as DailyGuidePosts.com, eDiets.com and WeightWatchers.com.

Personals/Dating – Includes sites that foster dating, such as Match.com, Singles.com and Kiss.com.

Research – Includes library-type research tools (e.g., Merriam-Webster, eLibrary.com and Britannica.com), as well as consumer research (e.g., CarFax.com and ConsumerReports.org), people search (e.g., 1800ussearch.com), medical and more.

Sports – Includes sports news, fantasy sports and league sites, such as ESPN.com, SportingNews.com, MLB.com and DRF.com (Daily Racing Form).

Where content at large portal sites, such as Yahoo!, MSN or Go.com, encompassed multiple content categories, the revenue was counted separately according to content type.

APPENDIX C

About the Online Publishers Association

Founded in June 2001 by some of the Internet's leading content brands, the Online Publishers Association (OPA) is an industry trade organization dedicated to representing high-quality online publishers before the advertising community, the press, the government and the public.

OPA is committed to producing groundbreaking research into online advertising and media consumption with the goal of advancing the online publishing industry. Through credible research and ongoing communications, OPA seeks to establish and promote the Internet as an effective advertising medium for marketers and a sustainable media business for publishers, thereby ensuring the continued availability of quality content to serve the public good.

Current members of OPA are: Bankrate.com, CBS MarketWatch, CNET Networks, CondéNet, Cox Enterprises, ESPN.com, Forbes.com, Internet Broadcasting Systems, Inc., Knight Ridder Digital, Le Monde Interactif, MSNBC.com, New York Times Digital, Scripps Networks, Slate, SportingNews.com, Tribune Interactive, USATODAY.com, Wall Street Journal Online, Washingtonpost.Newsweek Interactive and weather.com.