



# **ONLINE PAID CONTENT U.S. MARKET SPENDING REPORT**

Conducted in partnership with



**This report covers Q1 and Q2 of FY 2003**

***September 2003***

# TABLE OF CONTENTS

<b>Introduction.....</b>	<b>4</b>
<b>Executive Summary .....</b>	<b>5</b>
♦ Half-year consumer spending for online content totals \$748 million.....	5
♦ Concentration of spending in the top three categories continues.....	5
♦ Subscriptions continue to be the dominant online content pricing model. .	5
♦ Purchasers of paid content tend to be younger, more upscale, and from smaller households than the total universe audience.....	5
<b>Research Details.....</b>	<b>6</b>
♦ Online paid content market continues to grow.....	6
♦ Revenue figures in Q1 and Q2 2003 indicate that growth in online paid content is back on track .....	7
♦ Personals/Dating remains the category leader; Personals/Dating and Personal Growth exhibit the fastest growth year-over-year. ....	8
♦ Online paid content total revenues show continued concentration in the top 3 categories. ....	9
♦ Subscriptions continue to be the dominant pricing model for online content sales.....	11
♦ Single purchases of content priced at \$50 or more were up from Q4 2002 levels, but down from a year ago. ....	12
♦ Mid-range purchases account for the majority of single purchase revenues; notably, “micro payments” (under \$5) are accounting for an increasing share over time.....	13
♦ Both annual and monthly subscription revenues are up, although the pace of growth is declining. ....	14
♦ Growth in revenues for online paid content is being driven by increased consumer penetration. ....	15
♦ Growth in number of new online content purchasers is far outstripping the growth of the online population at large. ....	16
♦ Personals/Dating year-over-year growth remains strong.....	17
♦ Business Content and Investment category growth is leveling off but remains robust at about 20% year-over-year. ....	18
♦ Entertainment and Lifestyles—the third of the “big three” categories—exhibited a decline year-over-year in both Q1 and Q2 2003. ....	19
♦ Personal Growth is the fastest-growing online paid content category, and has emerged as a category to watch.....	20
♦ In aggregate, the rest of the online paid content categories were flat year-over-year.....	21
♦ Increase in paid content consumer penetration relative to eCommerce indicates that consumer acquisition still in play .....	22

<b>Conclusions .....</b>	<b>23</b>
<b>APPENDIX A.....</b>	<b>24</b>
Survey Scope and Methodology.....	24
<b>APPENDIX B.....</b>	<b>26</b>
Definitions of Content Categories.....	26
<b>APPENDIX C.....</b>	<b>27</b>
About the Online Publishers Association.....	27

## INTRODUCTION

Online paid content spending has resumed its upward trajectory in the first half of 2003. Year over year growth during this period increased by 22%, robust in a tepid economy, though down from the stratospheric rates recorded during 2002. While slowing growth is indicative of a maturing market, we may also be in the midst of a quiet period during which content providers are readying new premium paid services for an increasingly receptive public.

In many quarters there is a sense of anticipation that the next wave of consumer paid content spending is about to be unleashed. This is particularly true in the Entertainment/Lifestyles category. This category actually contracted by 7% during the first half of this year compared to the same period in 2002. But the music industry is moving aggressively to migrate consumers to legitimate digital services; and at the same time broadband marches on, now reaching tens of millions of US households, opening up the possibilities of streaming video services under a subscription model. Entertainment/Lifestyles has indeed become the category to watch in the coming months as an indicator of the potential market size for paid content.

Consolidation of paid content spending continued during the first half of this year, with the top three categories – Personals/Dating, Business/Investment, and Entertainment/Lifestyles – now accounting for 65% of all consumer content dollars, up from 61% in the same period last year. The subscription model also registered gains; today, nearly 90% of all content sales are subscriptions, with the remainder being sold through single purchases.

Paid content consumers now number 16 million and account for nearly 11% of the total online universe. Another promising sign for the purveyors of digital content is the growth in the number of paid content consumers relative to the growth of the internet users overall: Their ranks swelled by 25% during a period that the overall growth of Internet users grew only 8%.

Equally noteworthy is this comparison: Fully 26% of the online population engaged in eCommerce activity during Q2 2003 while only 11% paid for content. Thus, there is unquestionable opportunity for content providers to convert additional Internet users to paying customers.

We look forward to chronicling this trend in future reports.

Yours truly,

Michael Zimbalist  
Executive Director  
Online Publishers Association

# EXECUTIVE SUMMARY

## **Half-year consumer spending for online content totals \$748 million.**

- ◆ U.S. consumers spent \$748 million for online content in the first two quarters of 2003; this represents an increase of 23% over the same period in 2002.
- ◆ After a Q4 dip in paid content revenues in 2002, Q1 2003 revenues were up 10% to \$368 million. This figure was higher than the Q3 2002 pre-decline figure of \$359 million. In Q2 total revenues were up another 3% to \$380 million.
- ◆ Paid content penetration increased to 10.5% of the online universe in Q1 2003, and 10.9% in Q2. The penetration growth rate continues to outstrip eCommerce growth. Year-over-year, penetration of online paid content was up 13% in Q1 2003 and 15% in Q2. For the same period, eCommerce growth was up 3% and 4% respectively.
- ◆ The growth in online paid content penetration was overwhelmingly generated by customer conversion, as opposed to online universe growth. Year-over-year, the total raw number of paid content purchasers grew 22.3% in Q1, to 15.2 million; and 24.6% in Q2, to \$16.0 million. At the same time the total Internet audience grew by 7.8% (Q1) and 8.3% (Q2).

## **Concentration of spending in the top three categories continues.**

- ◆ The top three categories – Personals/Dating, Business/Investment Content and Entertainment/Lifestyles – account for 65% of online content spending in the first half of 2003, up from 61% for a similar period in 2002.
- ◆ The Personals/Dating category widened its lead over the Business/Investment category, accounting for 28% of paid content revenues in Q1 and 29% in Q2 2003. This represents significant share growth from Q1 2002 (18%) and Q2 2002 (22%).
- ◆ No single category increased by 100% for the first half of 2003 year-over-year. However, the fastest growing category is now Personal Growth, which exhibited a year-over-year revenue increase of 99% for the first half of 2003, vaulting from 8<sup>th</sup>-ranked to 6<sup>th</sup>-ranked category.

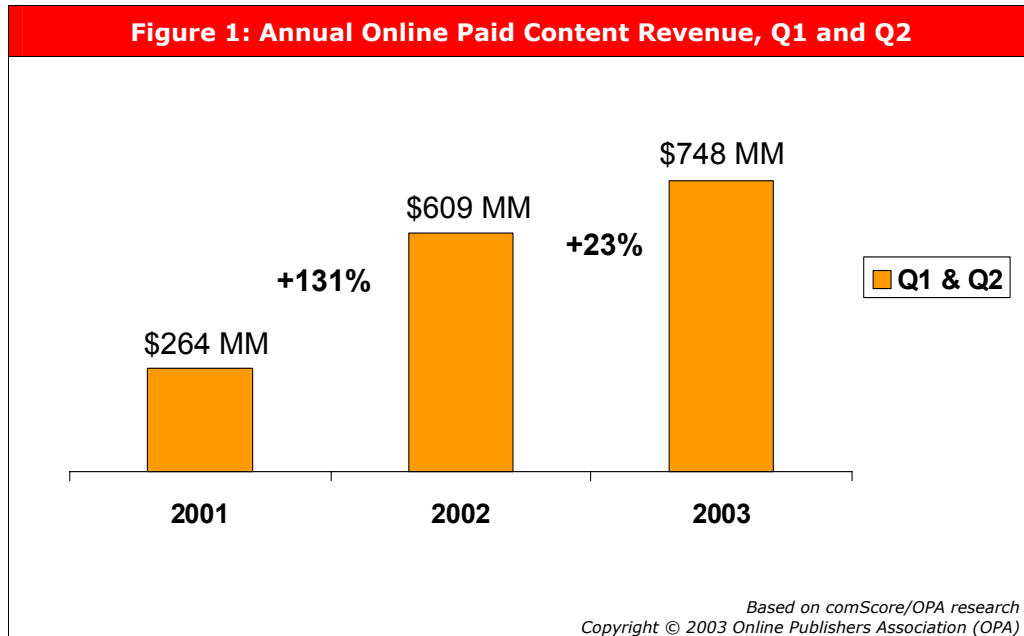
## **Subscriptions continue to be the dominant online content pricing model.**

- ◆ 89% of paid content revenues came from subscriptions in the first half of 2003. This was up from 86% for FY 2002.
- ◆ Monthly subscription revenues were up to 46% of total subscription revenues in the first half of 2003 versus 44% for FY 2002; annual subscription revenues were down from 47% in FY 2002 to 44% in FY 2003.
- ◆ Among single payments, mid-range payments (between \$5 and \$50) accounted for 68% of revenues in Q1 2003, and 71% in Q2.
- ◆ The growth of micro payments (under \$5) has been dramatic over the past 18 months. Micro payments have steadily increased from 2.6% of total single payment revenues in Q1 2002 to fully 8.0% in Q2 2003.
- ◆ Revenues from payments of \$50 or more were up a combined 20% in the first half of 2003 relative to Q4 2002. This rebound is of particular note because Q4 2002 was the first quarter that this revenue figure declined.

## RESEARCH DETAILS

### Online paid content market continues to grow

In a generally soft economy, US consumers spent 23% more on online paid content in the first half of 2003 than in a similar period in 2002. While this rate of growth is down from the triple digit growth exhibited the previous year, it remains robust for a fast-maturing segment.

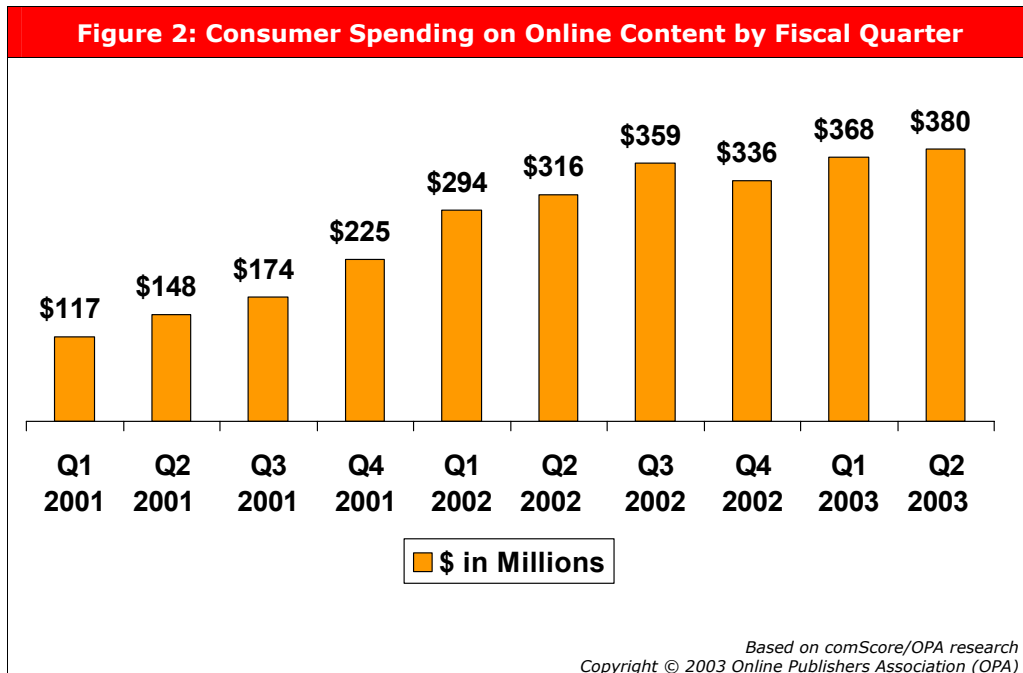


## Revenue figures in Q1 and Q2 2003 indicate that growth in online paid content is back on track

In Q4 of 2002, online paid content saw its first calendar quarter-to-quarter dip relative to Q3 2002 (down 7%, from \$359 million to \$336 million).

This decline turned out to be a one-quarter aberration. Online paid content expenditures were up in Q1 2003 by 10% over Q4 2002, to \$368 million. Indeed this figure even represents an increase of 2% over Q3 of 2002, which had previously been the highest-revenue quarter ever.

Q2 of 2003 continued this increase, up another 3% over Q1 to \$380 million.

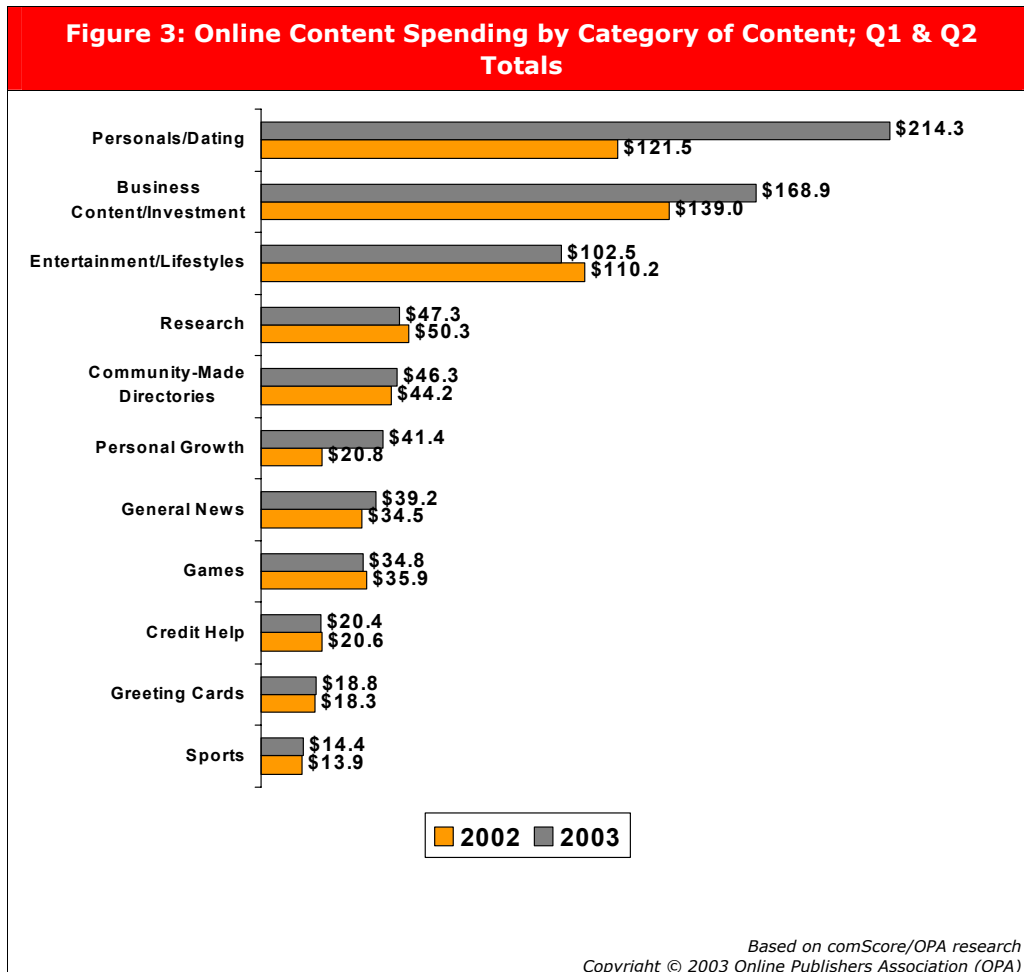


**Personals/Dating remains the category leader;  
Personals/Dating and Personal Growth exhibit the fastest  
growth year-over-year.**

The Personals/Dating category continues to drive overall growth in paid content, retaining the top spot among the content categories. U.S. consumers spent \$214.3 million on Personals/Dating content in the first two quarters of 2003, up a robust 76% from the same period in 2002.

Another fast-growing category was Personal Growth, up 99% from the first two quarters of 2002. the Personal Growth category leap-frogged from 8<sup>th</sup>-ranked to 6<sup>th</sup>-ranked category, the most dramatic rank order change.

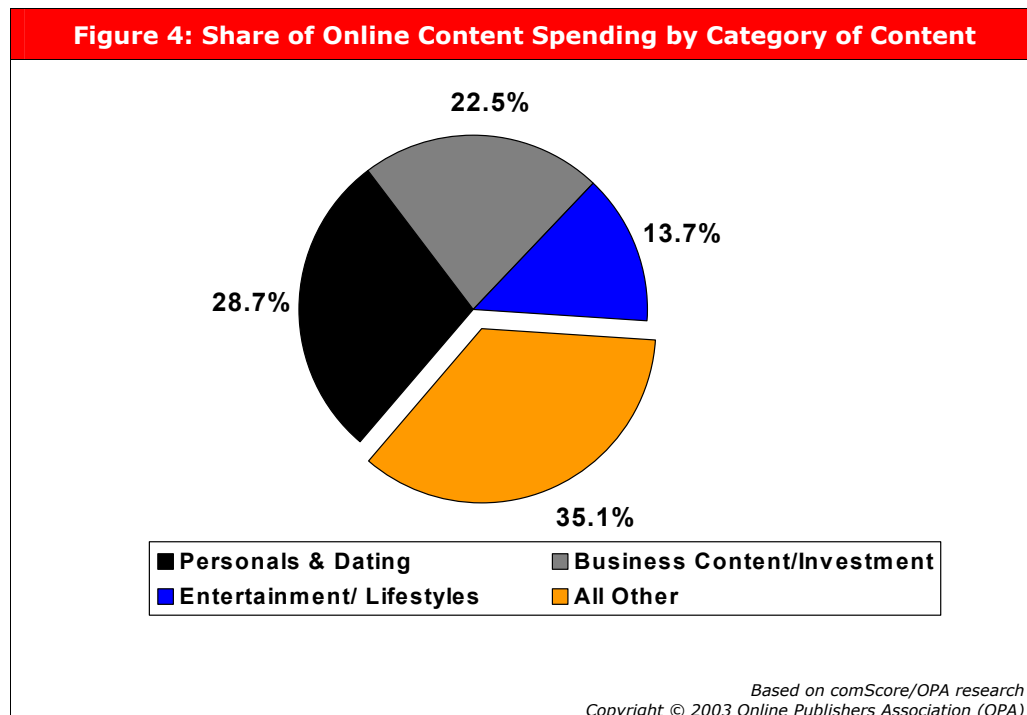
Several categories declined year-over-year, including Entertainment/Lifestyles (-7%), Research (-6%), and Games (-3%).



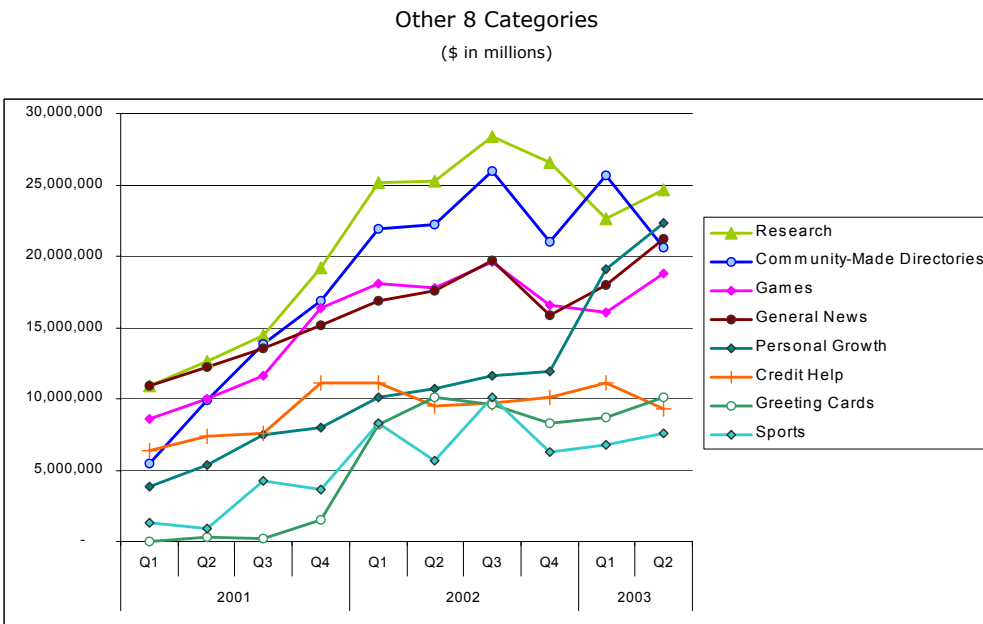
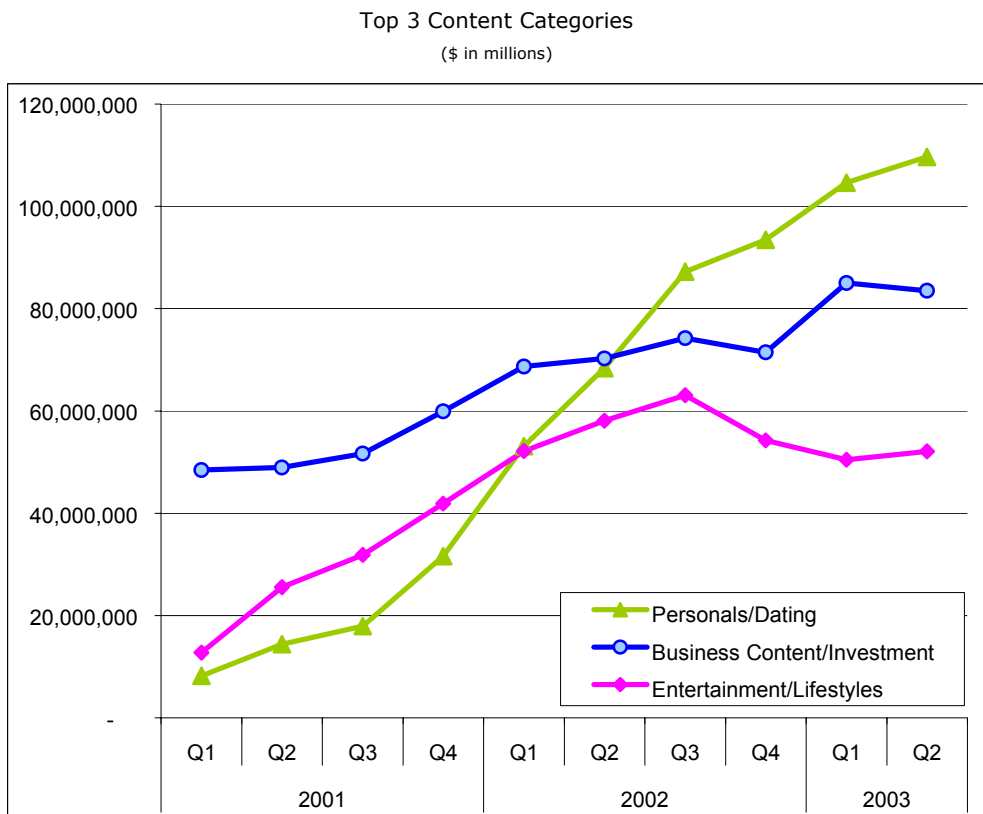


## Online paid content total revenues show continued concentration in the top 3 categories.

The top three categories – Personals/Dating, Business/Investment Content and Entertainment/Lifestyles – together made up 65% of all consumer spending for online content for the first half of 2003. This is up from 61% for the first half of 2002.



**Figure 5: Online Content Spending by Category of Content**



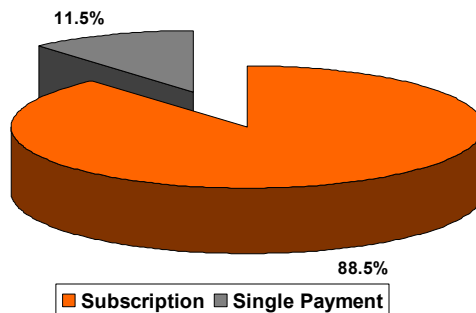
*Based on comScore/OPA research  
Copyright © 2003 Online Publishers Association (OPA)*

A definition of each category is provided in Appendix B.

## Subscriptions continue to be the dominant pricing model for online content sales.

Overall, subscriptions continue to be the dominant pricing model. 88.5% of revenue came from subscription transactions in the first half of 2003. This was up from 86% for FY 2002.

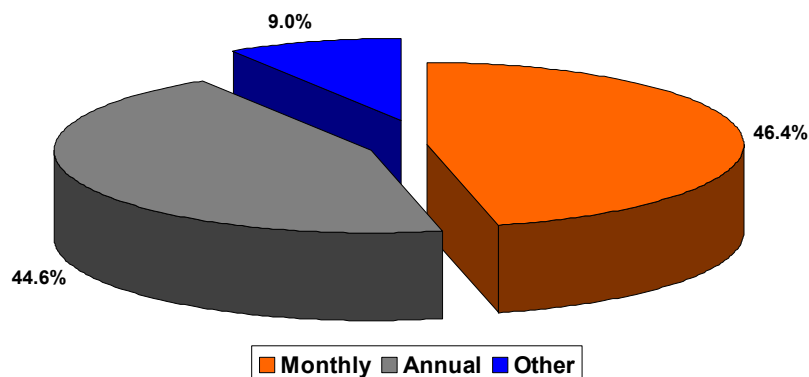
**Figure 6: Proportion of Q1 & Q2 2003 Content Spending by Pricing Model**



*Based on comScore/OPA research  
Copyright © 2003 Online Publishers Association (OPA)*

In the subscription arena, monthly revenues accounted for 46% of all subscription revenues in the first half of 2003, up from 44% for FY 2002. Annual subscriptions accounted for 45% for the first half of 2003, down from 47% in FY 2002.

**Figure 7: Proportion of Q1 & Q2 2003 Subscription Content Spending by Pricing Model**



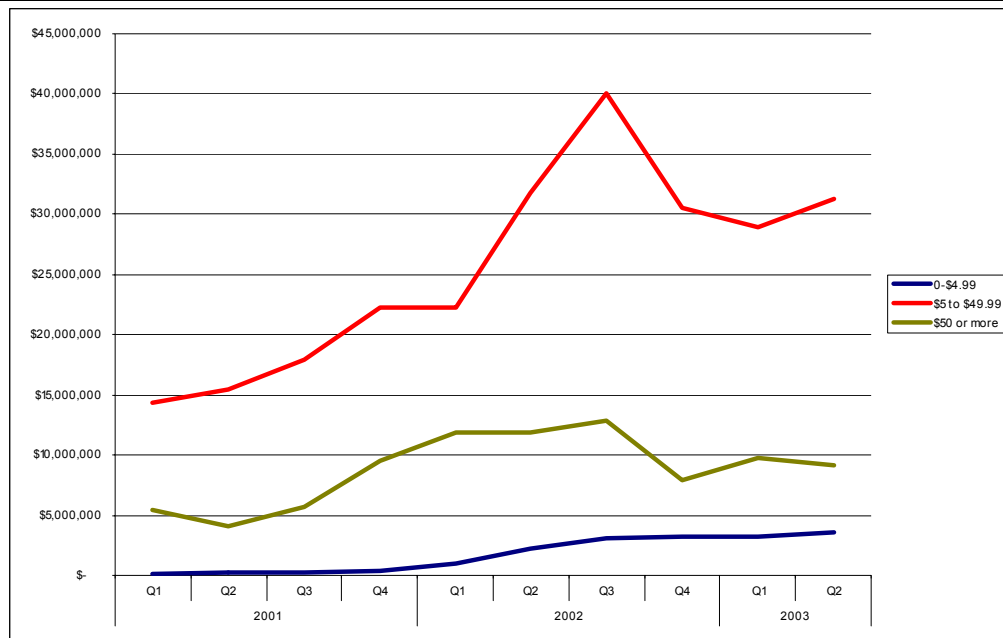
*Based on comScore/OPA research  
Copyright © 2003 Online Publishers Association (OPA)*

Single purchases of content priced at \$50 or more were up from Q4 2002 levels, but down from a year ago.

Purchases of \$50 or more rebounded for Q1 and Q2 2003, up a combined 20% from Q4 2002. This is notable because Q3-Q4 2002 were the first quarters in which this measure exhibited a decline.

However, when compared to the previous year, purchases of \$50 or more were down 22% versus Q1 and Q2 of 2002.

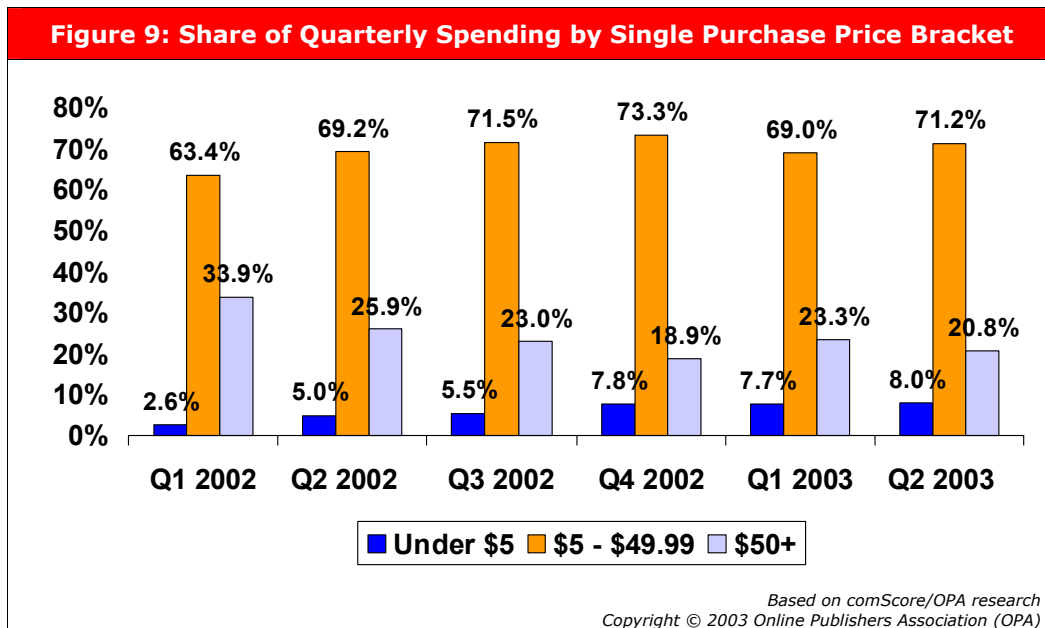
**Figure 8: Growth in Quarterly Spending by Single Purchase Price Bracket**



Based on comScore/OPA research  
Copyright © 2003 Online Publishers Association (OPA)

Mid-range purchases account for the majority of single purchase revenues; notably, “micro payments” (under \$5) are accounting for an increasing share over time.

Mid-range purchases (between \$5 and \$49.99) accounted for 69% of total single payment revenues in Q1, and 71% in Q2 of 2003. This share has been relatively constant since Q2 of 2002. However, small purchases—those under \$5—have been accounting for an increasing share of total single payment revenues, up from 2.6% in Q1 2002 to 8.0% in Q2 2003.



Both annual and monthly subscription revenues are up, although the pace of growth is declining.

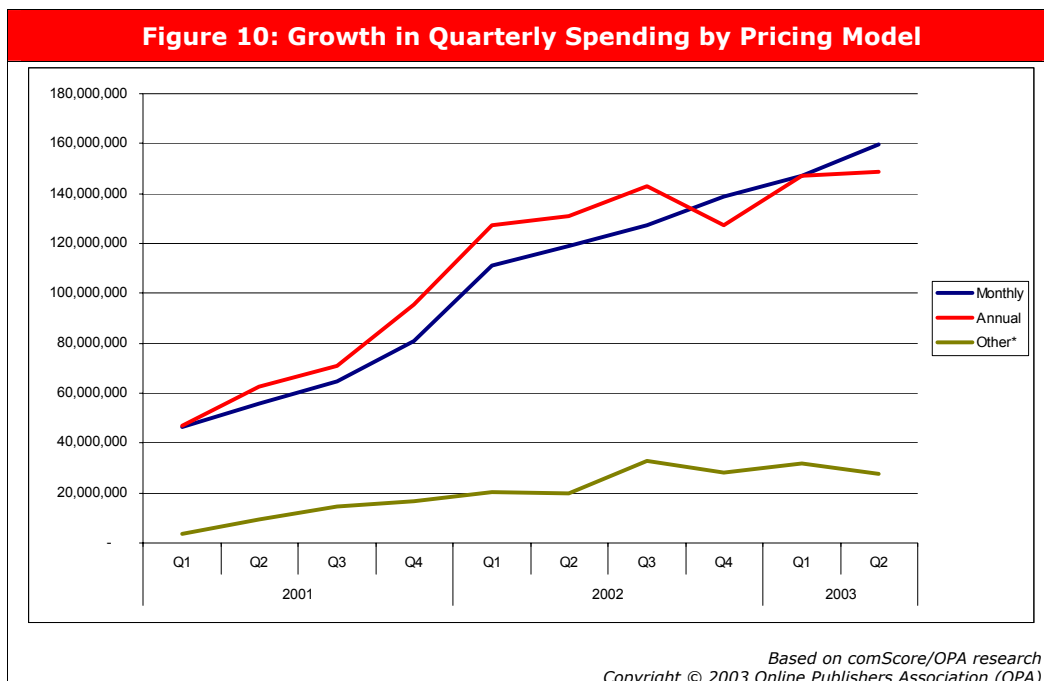
Subscriptions in general exhibited robust growth.

After a dip in Q4 2002, annual subscription revenues were up 16% in Q1 2003 and another 1% in Q2. Year-over-year growth in annual subscription revenues were up 16% in Q1 2003, and up 14% in Q2. However, quarterly year-over-year growth is trending downward.

Monthly subscriptions were up 6% in Q1 and another 9% in Q2. Year-over-year growth in monthly subscription revenues was up 33% in Q1 2003 versus the same quarter in 2002; and up 34% in Q2. As with annual subscription revenues, the quarterly trend in year-over-year growth for monthly subscription revenues is also trending downward.

It should be noted that the decline in rate of growth for both annual and monthly subscriptions is most likely a function of the higher base which these categories have attained; it is more likely to see a dramatic percent growth over a small number than a big one.

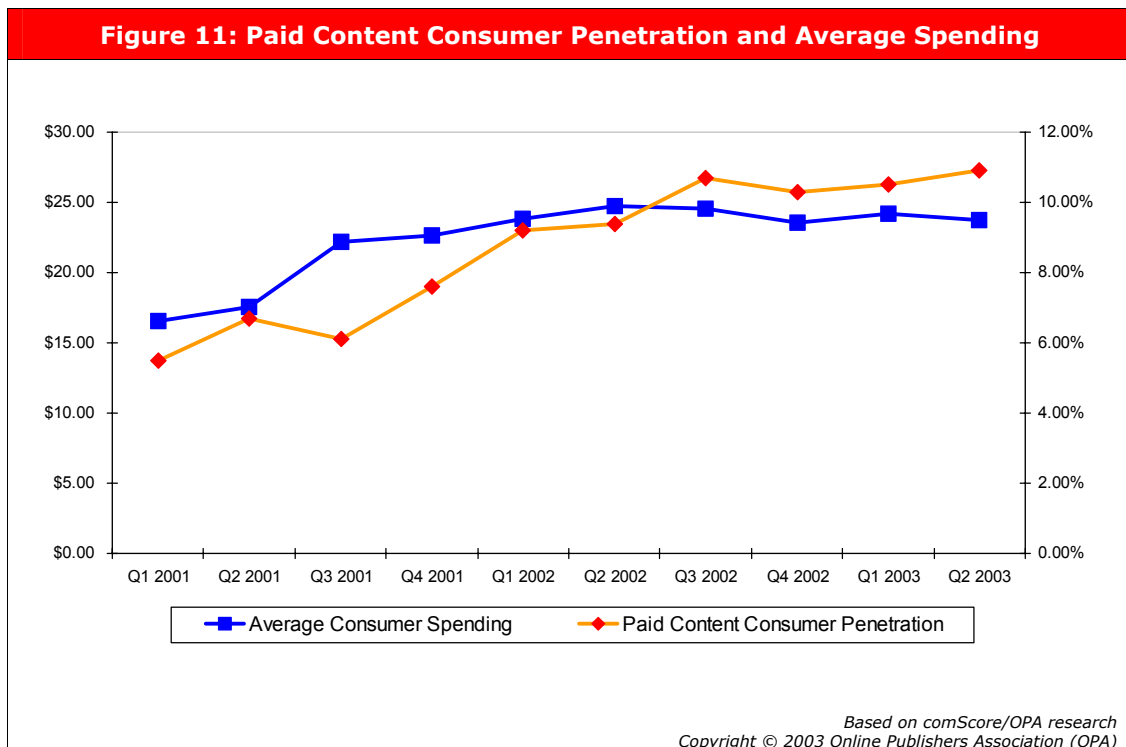
The “other” category appears to be leveling off; this likely represents a shift in subscription behavior to monthly or annual offerings. Such a switch may well indicate increased consumer comfort with the concept of the online subscription, and the willingness to commit to the purchase of regular service offerings.



## Growth in revenues for online paid content is being driven by increased consumer penetration.

Online paid content consumer penetration continues to climb. After a dip in Q4 2002, consumer penetration has climbed to 10.9% as of Q2 2003, the highest penetration thus far in a single quarter. Year-over-year, this represents an increase of 15% over Q2 in 2002.

Conversely, average expenditures per consumer are flat. This may be a function of the duration consumers have been active purchasers; as online paid content acquires more and more new consumers, these new consumers—who probably are lighter spenders than longer-term purchasers—tend to skew average expenditures-per-consumer.

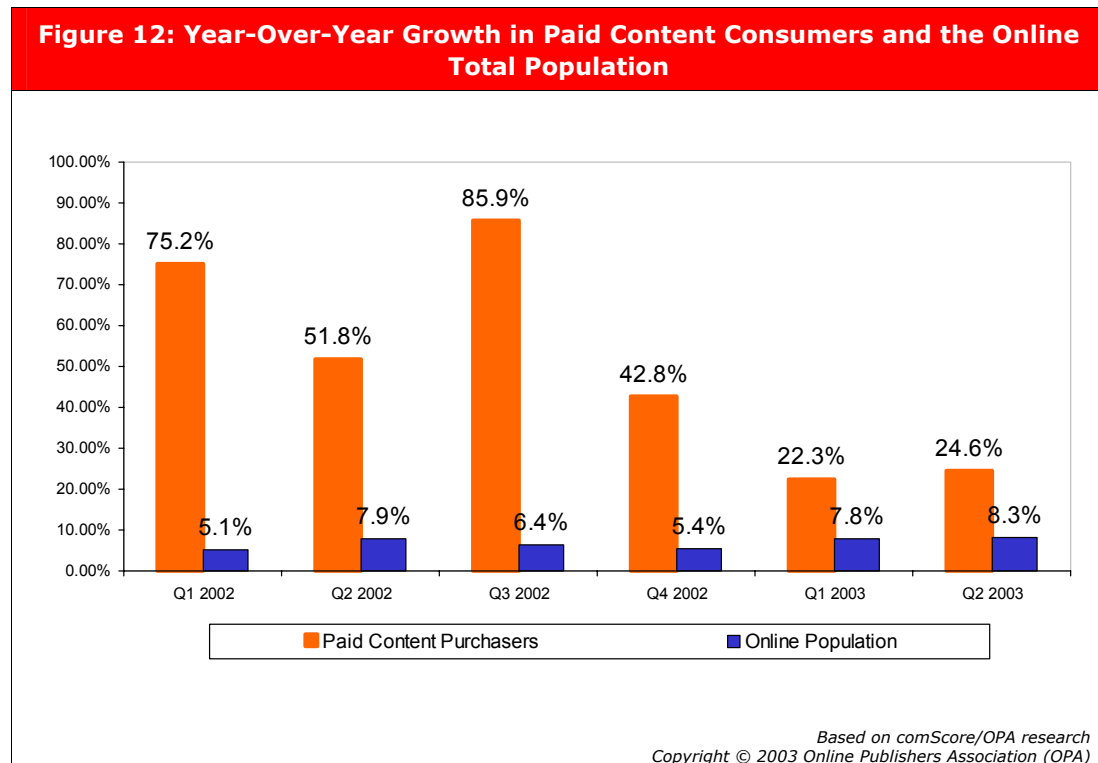


Despite slowing of growth in consumer penetration, there is still much opportunity for growth by acquisition. With overall eCommerce penetration at 25-29% on a quarterly basis throughout 2002, there is still plenty of upside for growing the penetration of paid content consumers within the population that is already currently making transactions online.

## Growth in number of new online content purchasers is far outstripping the growth of the online population at large.

One significant new finding is that the growth in online consumer penetration is not being driven by the growth in the online population as a whole. In other words, most of the growth is coming from consumers who are already online, and who are embracing paid content.

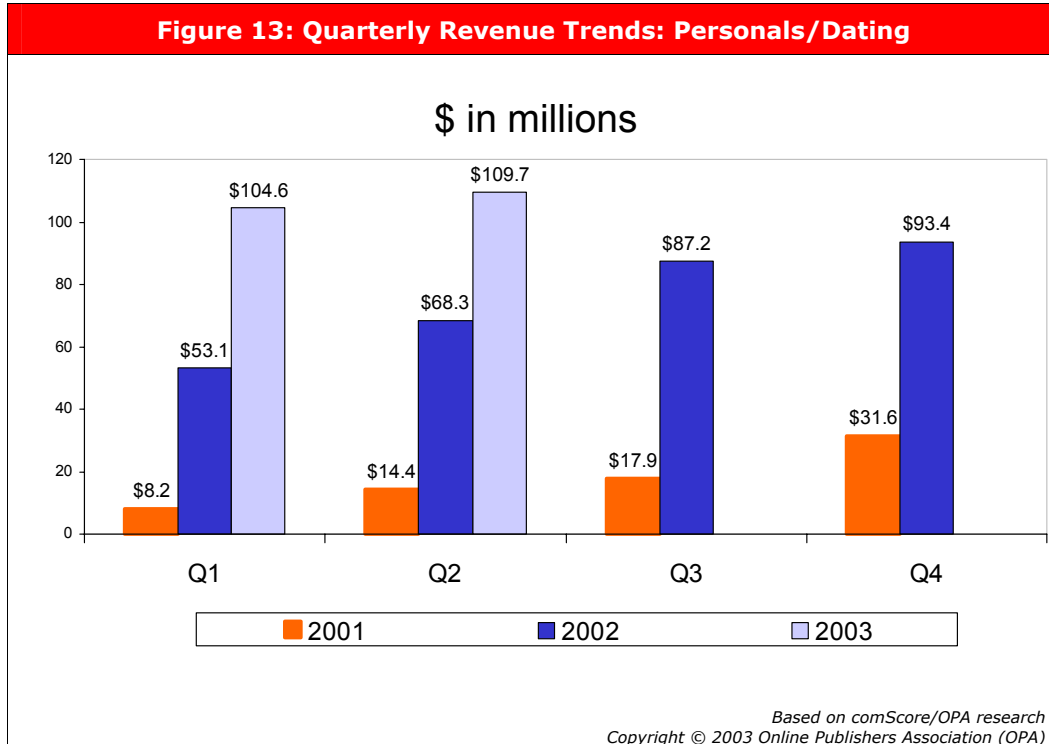
In comparing year-over-year growth by quarter, the online population grew 8% in both Q1 and Q2 2003. At the same time, the raw number of consumers purchasing paid content grew 22% and 25%, respectively.





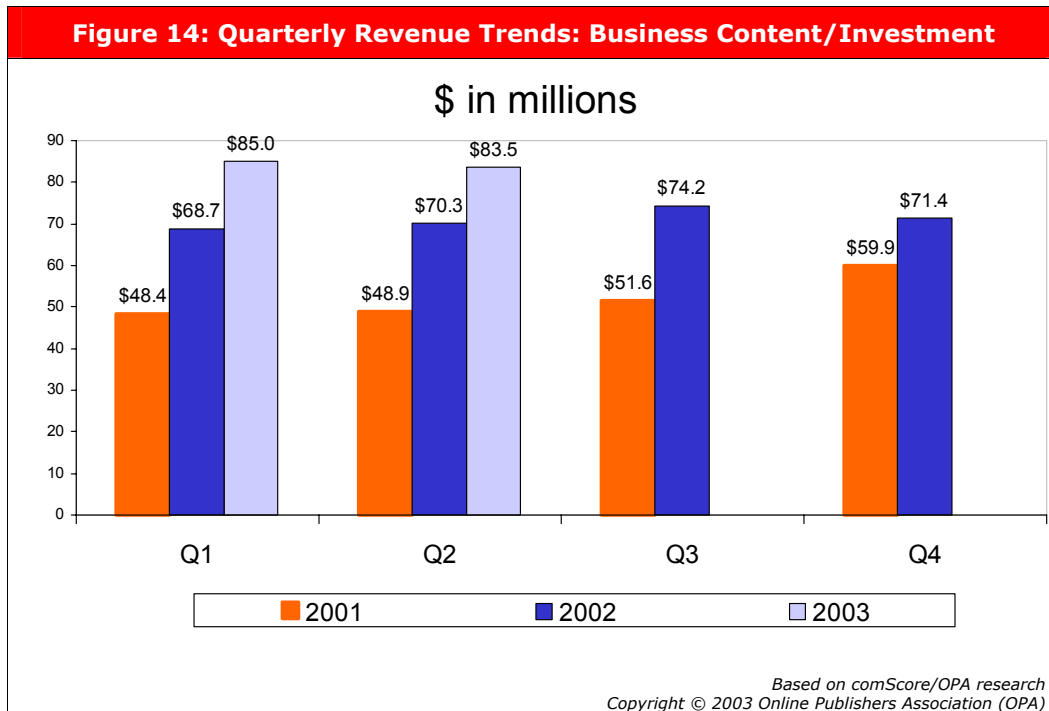
## Personals/Dating year-over-year growth remains strong.

In the Personals/Dating category, revenues were up 97% in Q1 2003, and 61% in Q2 2003, versus the same quarter the year prior.



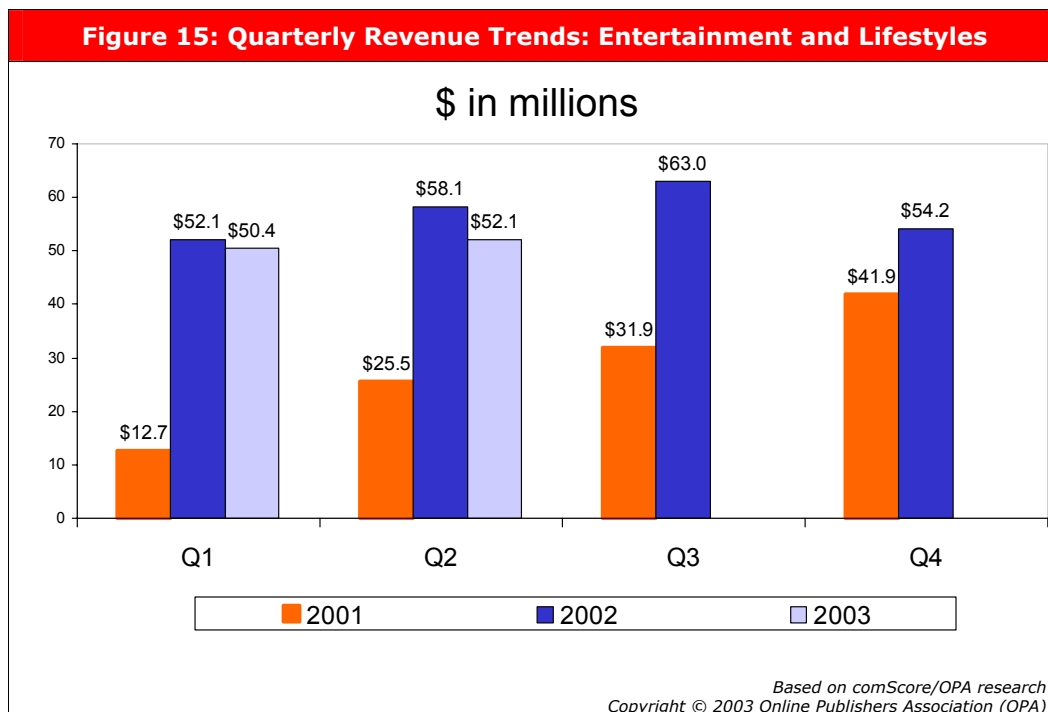
Business Content and Investment category growth is leveling off but remains robust at about 20% year-over-year.

In the Business Content and Investment category, year-over year growth was 24% in Q1 and 19% in Q2. This was the first paid content category to mature; it accounted for the most revenues every quarter from Q1 2001 until surpassed by Personals/Dating in Q3 2002.



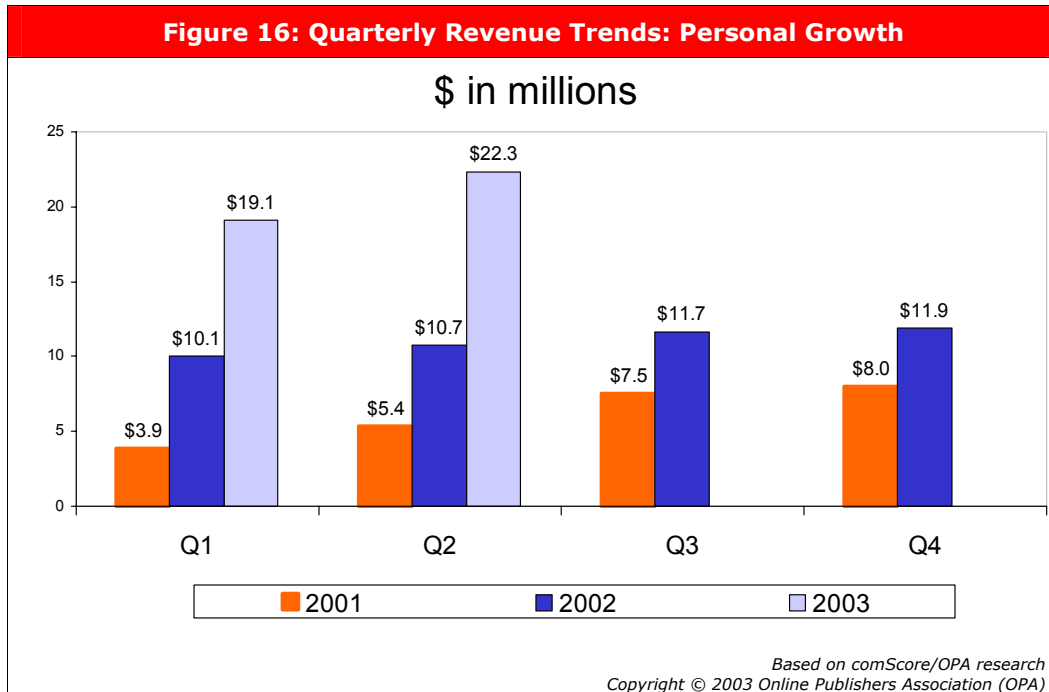
Entertainment and Lifestyles—the third of the “big three” categories—exhibited a decline year-over-year in both Q1 and Q2 2003.

The Entertainment and Lifestyles category was down 3% in Q1 2003 versus the same quarter in 2002; the category declined 10% in Q2.



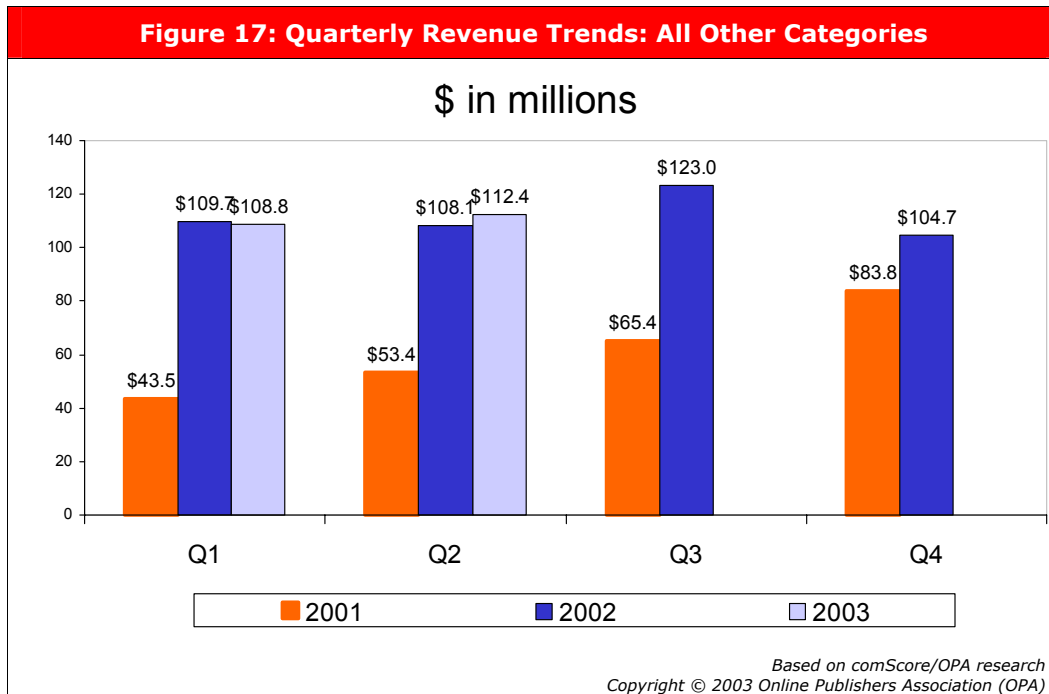
Personal Growth is the fastest-growing online paid content category, and has emerged as a category to watch.

The Personal Growth category exhibited an 89% increase in revenues in Q1 2003 year-over-year, and a 108% increase in Q2.



In aggregate, the rest of the online paid content categories were flat year-over-year.

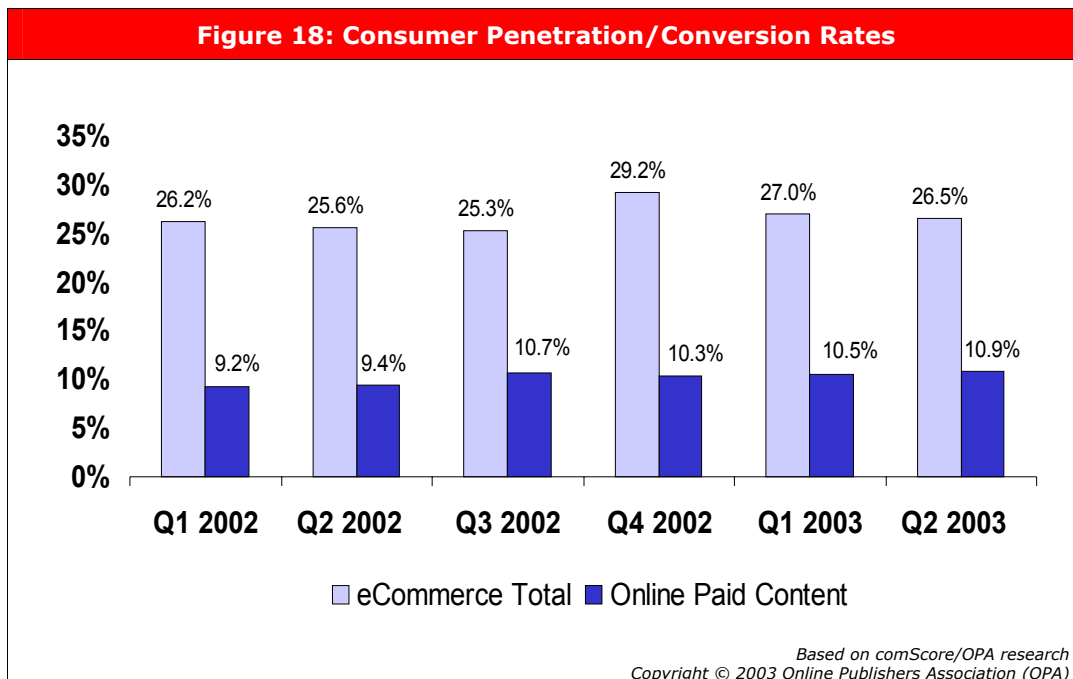
In aggregate, the remainder of the online paid content categories (accounting for 30% of total revenues in the first half of 2003) were relatively flat on a year-over-year basis. These categories exhibited a 1% decline in Q1 and a 4% increase in Q2 relative to the prior year.



## Increase in paid content consumer penetration relative to eCommerce indicates that consumer acquisition still in play

Online paid content consumer penetration was up 6% in Q2 2003 relative to Q4 2002. During the same period, eCommerce penetration has declined 9%.

While the penetration for online paid content is still far lower than eCommerce penetration—10.9% as compared to 26.5% for Q2 2003—online paid content penetration has grown from 35% of eCommerce penetration in Q4 2002, to 41% in Q2, 2003.



The disparity between eCommerce and paid content penetration indicates that there is still room for online paid content to grow through new customer acquisition. Notably, growth in quarterly paid content penetration appears to remain robust, while eCommerce penetration appears to have leveled off.

It should be noted that Q4 is generally a high quarter for eCommerce due to the holiday season. In a year-over-year comparison, online paid content penetration is up 14% in Q1 2003 versus Q1 2002; eCommerce penetration is up 3%. Online paid content penetration is up 16% in Q2 2003 versus Q2 2002; eCommerce penetration is up 4% for the same period.

## CONCLUSIONS

- ◆ After a slight dip in revenues in Q4 2002, online paid content was back on track in Q1 and Q2 of 2003.
- ◆ Consumer penetration growth in online paid content is outpacing eCommerce penetration growth. Penetration growth also far outstrips growth in the total Internet audience, indicating that the primary driver in penetration remains customer acquisition.
- ◆ While consumer penetration grows, average expenditures-per-consumer appears to be flat. This may well be a function of the influx of new consumers into the category having a lower average expenditure than longer-standing paid content consumers.

# APPENDIX A

## Survey Scope and Methodology

**comScore Networks** ([www.comscore.com](http://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 eight quarterly time periods, including the full year 2001 and the full year 2002. This eight-quarter range provides the basis for evaluating both annual revenue during 2001 and 2002 and quarterly growth from the first quarter of 2001 to the fourth quarter of 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.



We have made changes to the methodology to explicitly limit the scope of this report to paid online content produced primarily for consumer use, and purchased by private consumers. Since publication of the Full Year 2002 report, some historical data has been restated to incorporate these changes.

# 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: About.com/Primedia, Bankrate.com, Belo Interactive, CBS MarketWatch, CNET Networks, CondéNet, Cox Enterprises, Edmunds.com, ESPN.com, Forbes.com, Internet Broadcasting Systems, Inc., Knight Ridder Digital, Le Monde Interactif, Meredith Corporation, 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.