



ONLINE PAID CONTENT U.S. MARKET SPENDING REPORT

Conducted in partnership with



This report covers Full Year 2004

March 2005

TABLE OF CONTENTS

Introduction: Letter from the OPA President	3
Executive Summary.....	4
Research Details	5
♦ Consumer Spending for Online Paid Content Shows Strong Annual Growth.....	5
♦ Online Paid Content Spending Reaches All-Time High.....	6
♦ Entertainment/Lifestyles Registers Largest Gains to Become Second Largest Paid Content Category	7
♦ Entertainment-related Categories Lead in Year-Over-Year Gains	8
♦ Quarterly Trends Show Many Categories Resuming Growth.....	9
♦ Single Purchase Share of Paid Content Sales Reaches Record High	10
♦ Subscription Pricing Model for Online Content Sales Still Dominant	11
♦ Monthly Subscriptions Account for Majority of Subscription Revenue in Most Categories	12
♦ Single Purchase Sales Show Year-Over-Year Gains on Strength of Entertainment/Lifestyles Category	13
♦ The Number of U.S. Consumers Paying for Online Content Reaches All-Time High	15
Conclusions.....	16
Appendices	
♦ <i>Appendix A: Research Scope and Methodology.....</i>	<i>17</i>
♦ <i>Appendix B: Definitions of Content Categories</i>	<i>18</i>
♦ <i>Appendix C: About the OPA and About comScore Networks</i>	<i>19</i>

INTRODUCTION

U.S. consumer spending for paid online content reached an all-time annual high of \$1.8 billion in 2004.

Personals/Dating held its position as the leading paid online content category in 2004 with spending at \$469.5 million. However, the true growth story for 2004 came as a result of the Entertainment/Lifestyles category. With year-over-year growth of 90%, Entertainment/Lifestyles solidly assumed the No. 2 spot and is on track to become the leading paid content category should its current rate of growth continue.

While burgeoning online music sales were behind the significant gains in the Entertainment/Lifestyles category this year, song track sales also led to a marked shift in the overall single purchase versus subscription mix, with single purchases accounting for 15.4% of online content sales in 2004, versus only 11.0% in 2003. In spite of these gains, monthly subscriptions remain the predominant revenue model for consumers of online content.

Following Entertainment/Lifestyles, the Sports and Games categories also showed strong annual growth of 38% and 21.8%, respectively. The fact that these three categories were by far the year's fastest growing is further evidence that the Web is on its way to becoming a true entertainment medium for U.S. consumers.

Finally, while there is no doubt that the market for paid online content remains strong, with only 11.6% of the U.S. Internet population purchasing content online in Q4 2004, there is still significant room for growth.

We look forward to tracking these trends and reporting on new ones sure to emerge throughout 2005.

Yours truly,

Michael Zimbalist
President
Online Publishers Association

EXECUTIVE SUMMARY

Online content spending totals \$1.8 billion in 2004

- ◆ U.S. consumers spent \$1.8 billion for online content in 2004; this represents an increase of 13.7% compared to 2003 and was driven largely by the Entertainment/Lifestyles category

Entertainment/Lifestyles surges to overtake Business/Investment content as second largest paid content category

- ◆ Consumer spending on Entertainment/Lifestyles content reached \$413.5 million in 2004, surpassing Business/Investment content to rank second among all paid content categories
- ◆ Entertainment/Lifestyles also registered the largest year-over-year growth (90%), fueled by growth in online music sales
- ◆ Sports and Games also showed strong annual gains of 38% and 21.8%, respectively
- ◆ The Personals/Dating category remains the largest paid content category, with Business/Investment now at No. 3 behind Entertainment/ Lifestyles
- ◆ The top three categories – Personals/Dating, Entertainment/Lifestyles and Business/Investment – accounted for just over two-thirds (67.3%) of online content spending in 2004, up from 64% in 2003

Single purchase share of paid content sales reaches highest point yet

- ◆ In 2004, single purchase sales hit a record high of \$274.7 million, up 59.2% from 2003, driven by single purchases of music downloads
- ◆ The growth in digital music track/album sales shifted the overall single purchase versus subscription mix, with single purchases accounting for 15.4% of sales in 2004 versus only 11% in 2003 – the largest change in the three years we have been analyzing year-over-year trends.
- ◆ Single purchase sales in the Entertainment/Lifestyles category accounted for \$125.7 million in revenue in 2004, nearly eight times the \$15.9 million it accounted for in 2003.
- ◆ Among single payments, mid-range payments (between \$5 and \$50) accounted for 70% of single payment revenue for 2004
- ◆ Monthly subscriptions accounted for 58.4% of total subscription revenues in Q4 2004 versus 52.4% Q4 2003, an increase of 11.5% over the same period last year

The number of U.S. consumers paying for online content continues to grow while spending on online content per consumer holds constant quarter to quarter

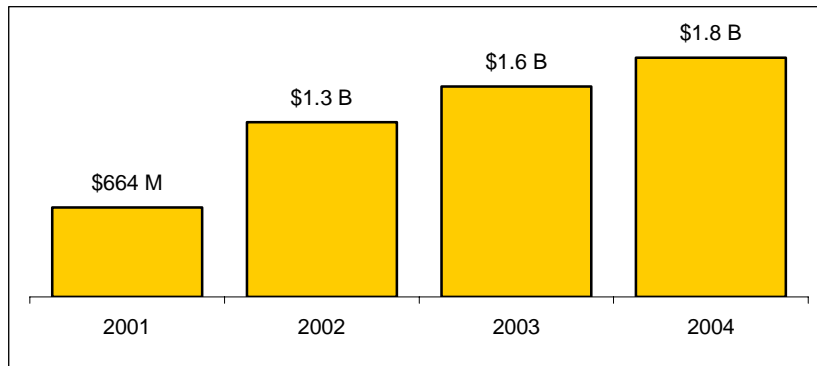
- ◆ 19.0 million U.S. consumers paid for online content in Q4 2004, up 15.9% from the 16.4 million who paid for content online in Q4 2003
- ◆ The 15.9% growth in paid content consumers in Q4 2004 over Q4 2003 is substantially greater than the growth of the U.S. Internet population during the same time period (10.3%)

RESEARCH DETAILS

Consumer spending for online paid content shows strong annual growth

U.S. consumers spent \$1.8 billion for online content in 2004, an increase of 13.7% compared to the year-ago period. While the rate of growth is down from the 19.9% growth of 2003, paid content remains a strong commodity in this maturing online market.

Figure 1: Annual Online Paid Content Revenue



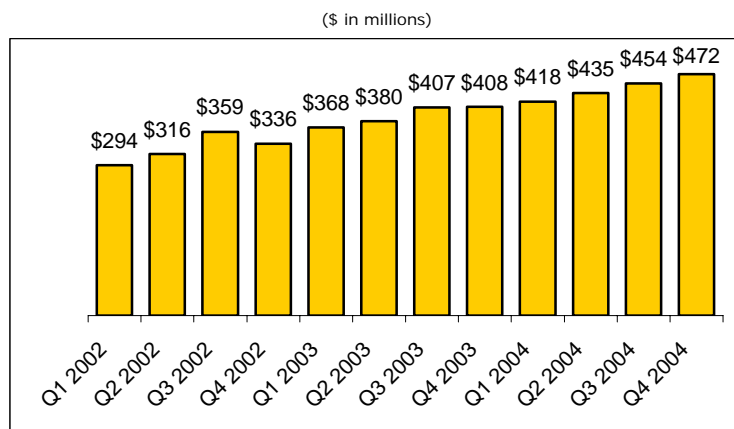
*Based on Online Publishers Association/comScore Networks research
Copyright © 2005 Online Publishers Association (OPA)*

Online paid content spending reaches all-time high

Online content spending reached an all-time high of \$471.6 million in Q4 2004, driven primarily by significant growth in the Entertainment/Lifestyles category and specifically, online music sales.

Importantly, 2004 marked the first time in two years that Q4 registered an increase in online content spending versus Q3 of the same year, as opposed to remaining flat or registering a slight decline. This suggests that previously noted seasonal trends may be shifting with the growth of entertainment spending.

Figure 2: Consumer Spending on Online Content by Quarter



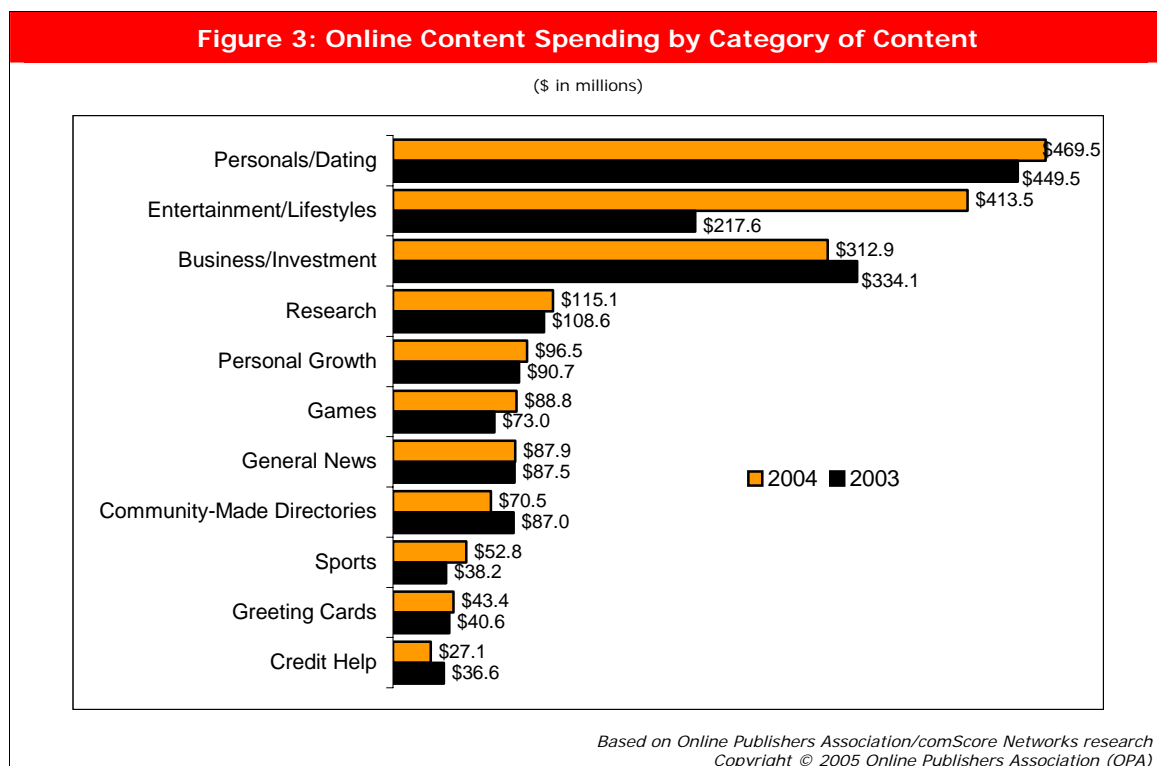
Based on Online Publishers Association/comScore Networks research
Copyright © 2005 Online Publishers Association (OPA)

Entertainment/Lifestyles¹ registers largest gains to become second largest paid content category

Personals/Dating held its position as the leading paid content category in 2004, with U.S. consumer spending at \$469.5 million, up 4.4% over 2003. However, spending on Entertainment/Lifestyles content grew 90% to \$413.5 million in 2004, making it the second largest paid content category.

Conversely, spending in the Business/Investment category declined 6.3%, from \$334.1 million in 2003 to only \$312.9 million in 2004.

The top three categories – Personals/Dating, Entertainment/Lifestyles and Business/Investment – accounted for 67.3% of online content spending in 2004, up from 64% in the year-ago period.



A definition of each category is provided in Appendix B.

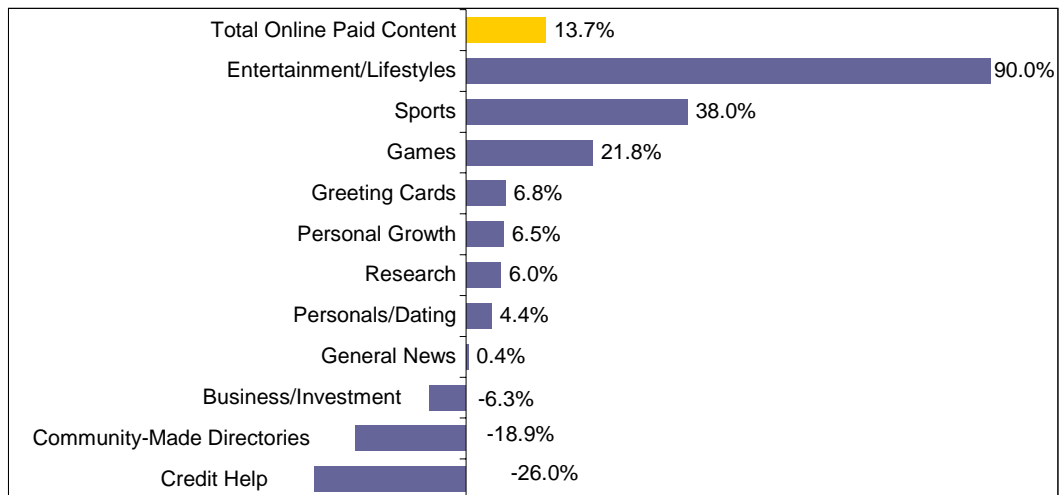
¹ Online music sales were added for the first time in 2004 and are included in the Entertainment/Lifestyles category. Those music sales reflect a combination of observed and estimated sales.

Entertainment-related categories lead in year-over-year gains

Entertainment/Lifestyles was the fastest growing paid content category for 2004, up 90% over 2003. Sports and Games registered the next largest year-over-year increases at 38% and 21.8%, respectively. Remarkably, the 21.8% growth in Games compares to virtually non-existent (1.3%) growth in the category in 2003.

On the flip side, consumer spending on Personal Growth content grew only 6.5% in 2004 over 2003, compared to the robust 104.5% growth it exhibited in 2003.

Figure 4: Annual Growth of Online Content Spending by Category (2004)



*Based on Online Publishers Association/comScore Networks research
Copyright © 2005 Online Publishers Association (OPA)*

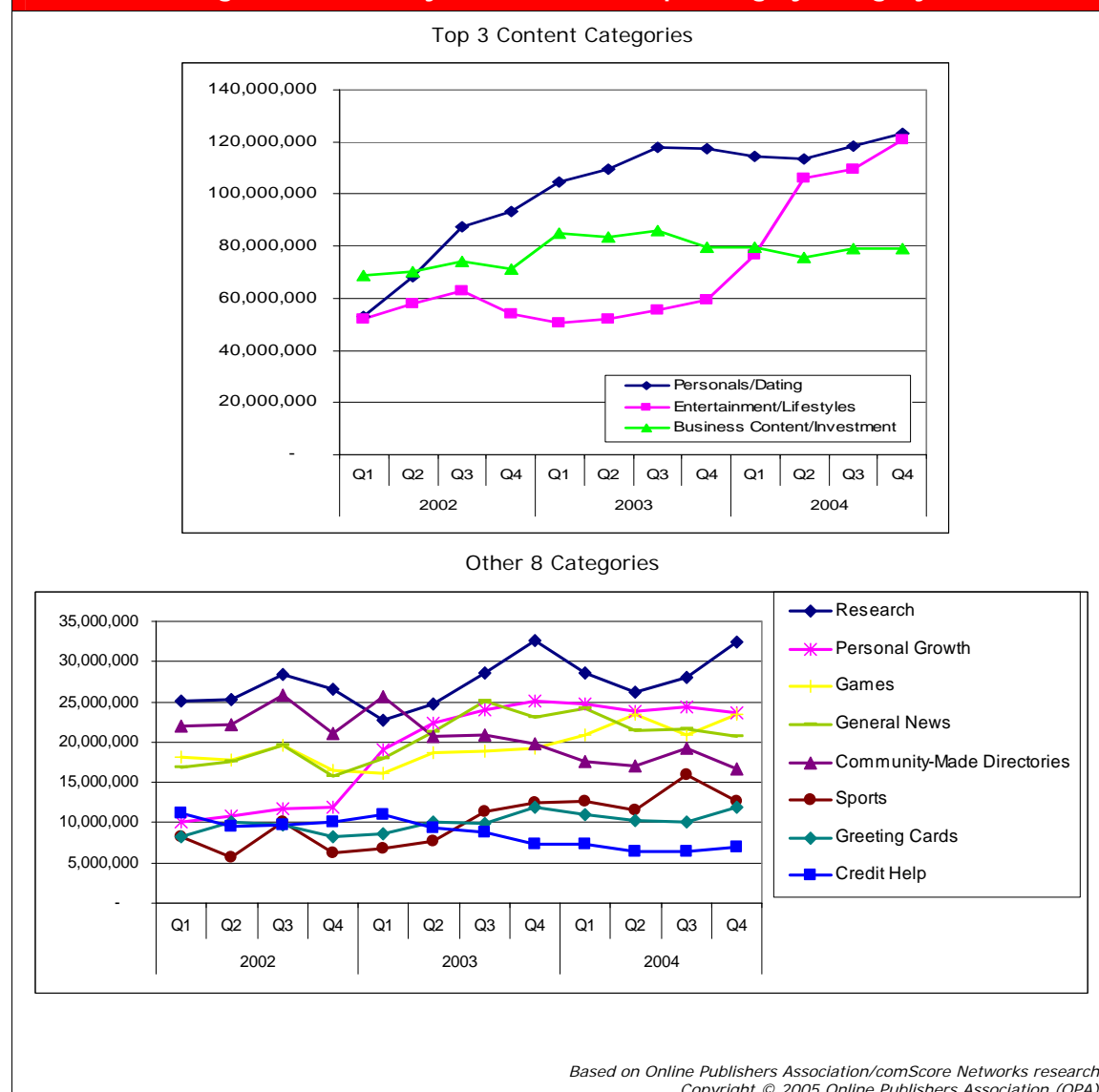
Quarterly trends show many categories resuming growth

Consumer spending on Personals/Dating, at an all-time high, resumed its growth in the last half of 2004 after posting notable declines in the first half of the year. Business/Investment content also began to grow again in Q3 and Q4 of 2004, following a decline in Q2.

Notable quarter-to-quarter decreases were seen in Community-Made Directories throughout 2003 and 2004, with the exception of a small seasonal spike in Q3 2004.

While Games experienced consistent quarter-to-quarter gains over that same time period, for the first time it showed a significant decline in Q3 2004 before rebounding in Q4, possibly due to heavier promotion schedules in Q2 and Q4.

Figure 5: Quarterly Online Content Spending by Category

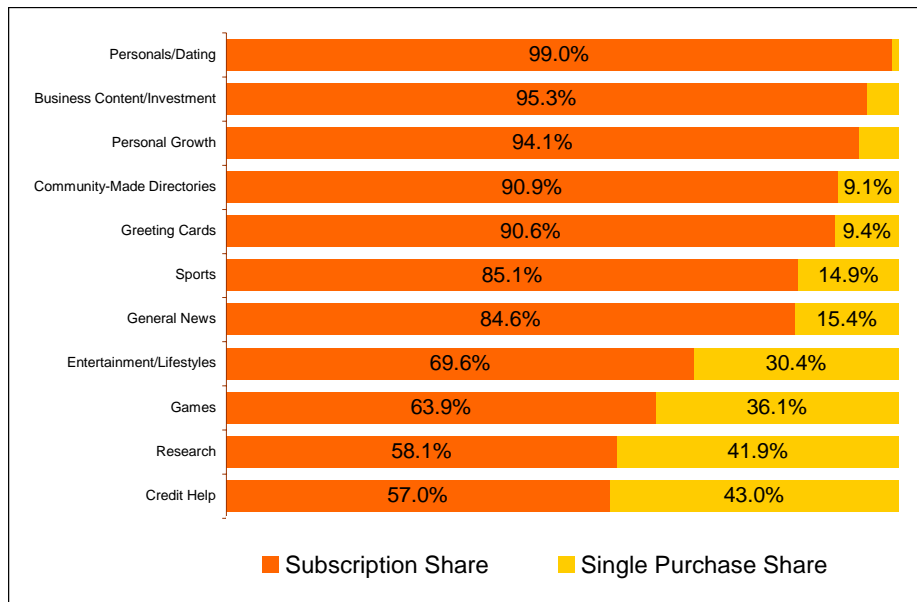


Single purchase share of paid content sales reaches record high

Single purchase share of paid content sales hit its record high – 15.4%, driven by single purchases of music downloads. Single purchase revenue increased 59.2% in 2004 to \$274.7 million, up from \$172.5 million in 2003. Clearly, Entertainment/Lifestyles was a major contributor, with single purchase revenue in the category at \$125.7 million in 2004, up from only \$15.9 million in 2003.

Games and General News both registered gains in subscription share from one year ago. Subscription share of revenue for Games was up from 56% in 2003 to 63.9% in 2004, while General News was up from 79.7% to 84.6% over the same period.

Figure 6: Proportion of Single Purchase to Subscription Sales by Content Category (% of total paid content dollars) 2004



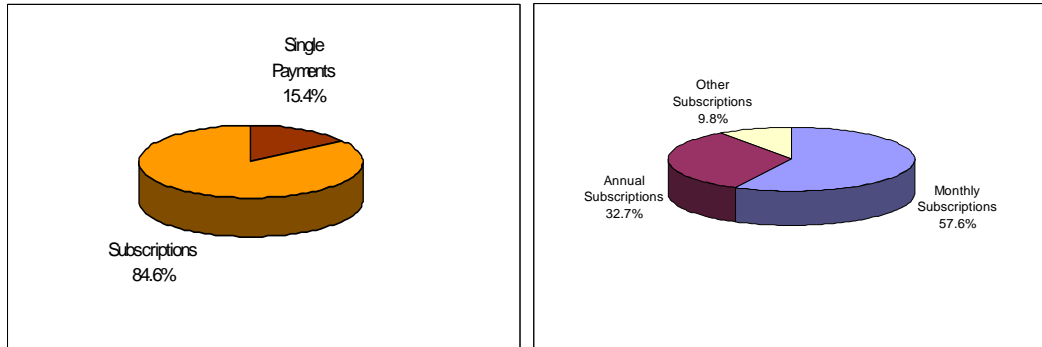
*Based on Online Publishers Association/comScore Networks research
Copyright © 2005 Online Publishers Association (OPA)*

Subscription pricing model for online content sales still dominant

Subscriptions continue to be the dominant pricing model, accounting for 84.6% of online content revenue in 2004.

Monthly subscriptions, which grew from 49.6% of total subscription revenue in 2003 to 57.6% in 2004, now account for more than half of all subscription revenue and are the predominant revenue model for consumers of online content.

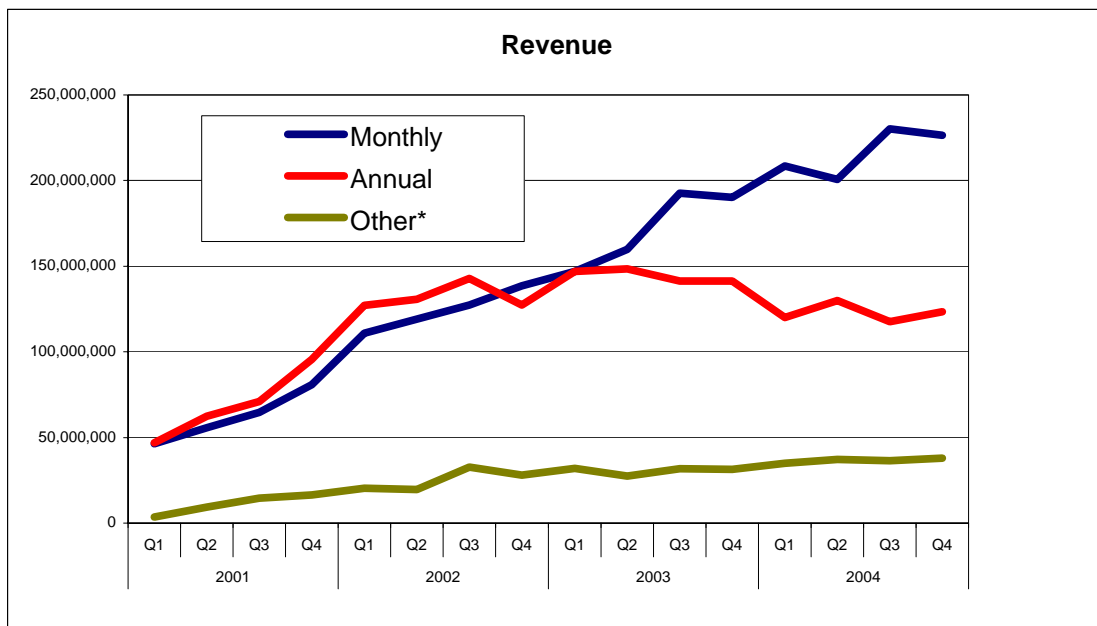
Figure 7: Proportion of 2004 Content Spending by Pricing Model



Based on OPA/comScore Networks Research
Copyright © 2005 Online Publishers Association (OPA)

Growth in monthly subscription revenue continues to outpace annual subscription revenue growth (down 15% from 2003).

Figure 8: Growth in Quarterly Spending by Pricing Model



* "Other" includes weekly, biweekly, quarterly, semi-annually and other subscription terms.

Based on Online Publishers Association/comScore Networks research
Copyright © 2005 Online Publishers Association (OPA)

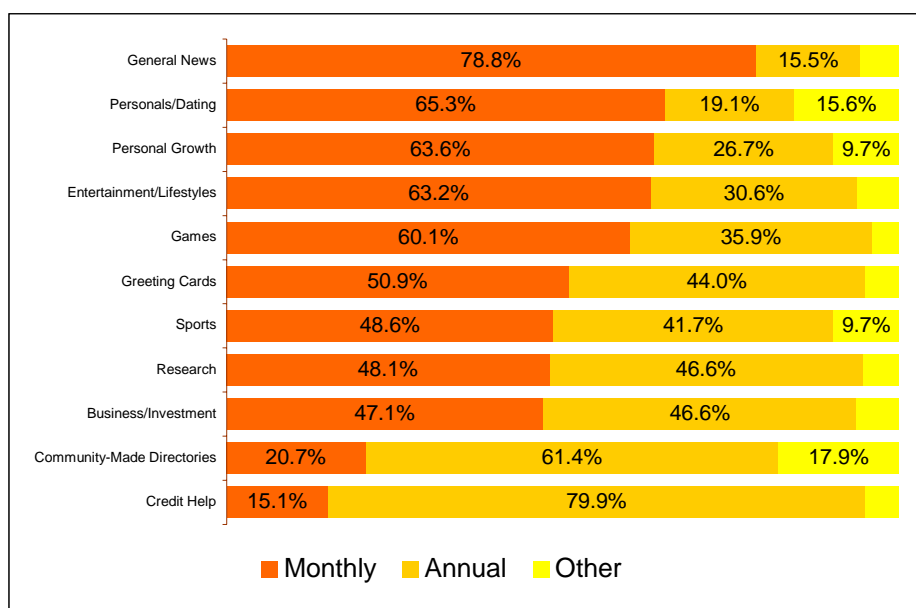
Monthly subscriptions account for majority of subscription revenue in most categories

Monthly subscriptions account for the majority of subscription revenue in most categories, with the exception of Credit Help and Community-Made Directories.

Sports registered a year-over-year increase in revenue derived from annual subscriptions, potentially attributable to the fact that many sports sites are now defaulting to annual subscriptions as opposed to seasonal subscriptions as they have in the past.

Credit Help and Greeting Cards also showed gains in annual subscription revenue for 2004, which may be due to success in converting current consumers to longer subscription terms.

Figure 9: Share of Subscription Revenue by Type, Full Year 2004

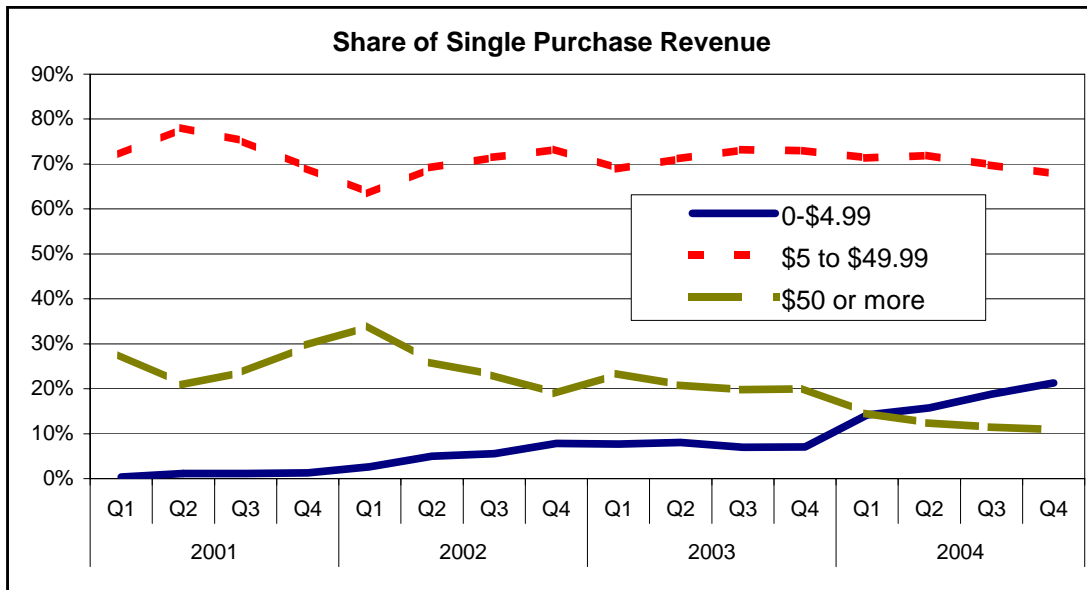


*Based on Online Publishers Association/comScore Networks research
Copyright © 2005 Online Publishers Association (OPA)*

Single purchase sales show year-over-year gains on strength of Entertainment/Lifestyles category

Among single payments, mid-range payments (between \$5 and \$50) accounted for 70% of single payment revenue in 2004. The share of single payment revenue attributable to sales at the \$0.00-\$4.99 price point increased from 7.4% in 2003 to 17.9% in 2004 on the strength of digital song track sales, while single purchases of \$50 or more accounted for only 12.1% in single purchase revenue in 2004, down from 21% in 2003.

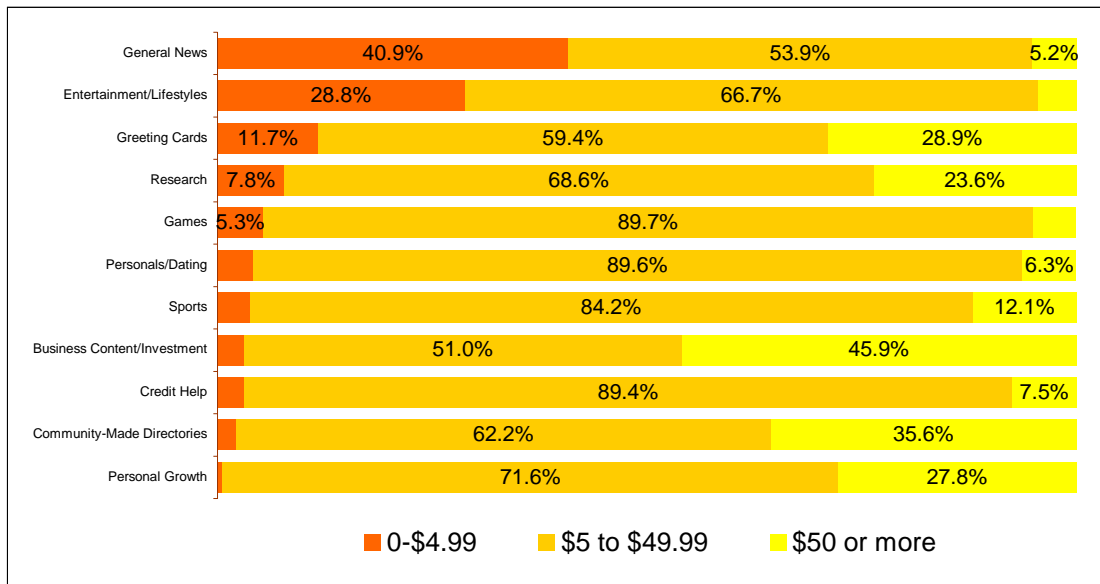
Figure 10: Share of Single Purchase Revenue by Price Bracket



*Based on Online Publishers Association/comScore Networks research
Copyright © 2005 Online Publishers Association (OPA)*

Business/Investment content and Community-Made Directories still have the highest proportion of single purchase sales above the \$50 price point in 2004. General News (40.9%) and Entertainment/Lifestyles (28.8%) had the highest proportion of sales at the lowest price point of \$0.00 to \$4.99.

Figure 11: Proportionality of 2004 Single Purchase Revenue by Price Bracket



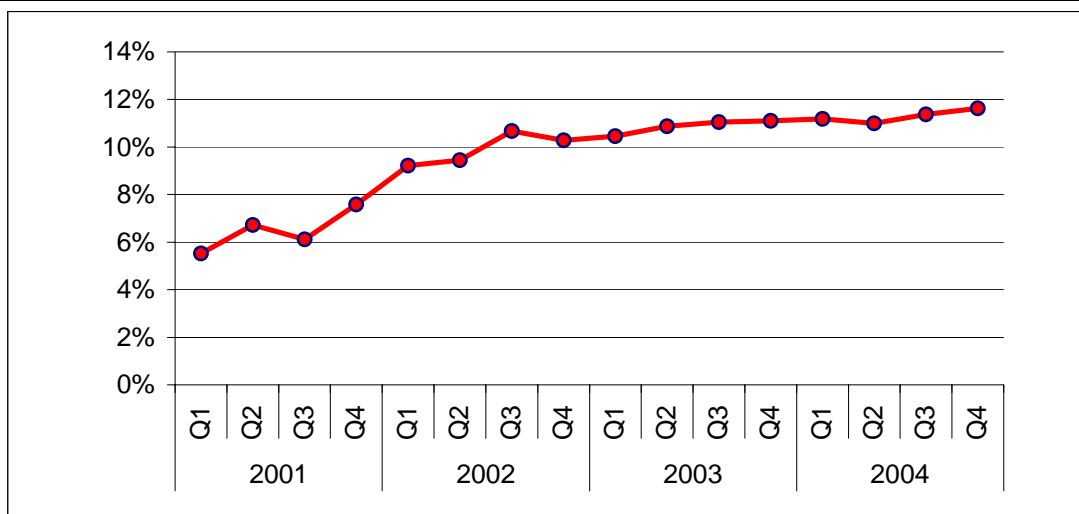
*Based on Online Publishers Association/comScore Networks research
Copyright © 2005 Online Publishers Association (OPA)*

Single purchase sales in the Entertainment/Lifestyles category accounted for \$125.7 million in revenue in 2004, nearly eight times the \$15.9 million it accounted for in 2003. Specifically, sales in the \$0.00 to \$4.99 range increased significantly, accounting for 28.8% of single purchase revenue in the category in 2004, compared to just 1.6% in 2003.

The number of U.S. consumers paying for online content reaches all-time high

The number of consumer paying for online content reached 19 million in Q4 2004, up from 16.4 million in Q4 2003. At the same time, online paid content consumer penetration reached 11.6%, up 4.5% from the year-ago period and the highest to date in the last four years.

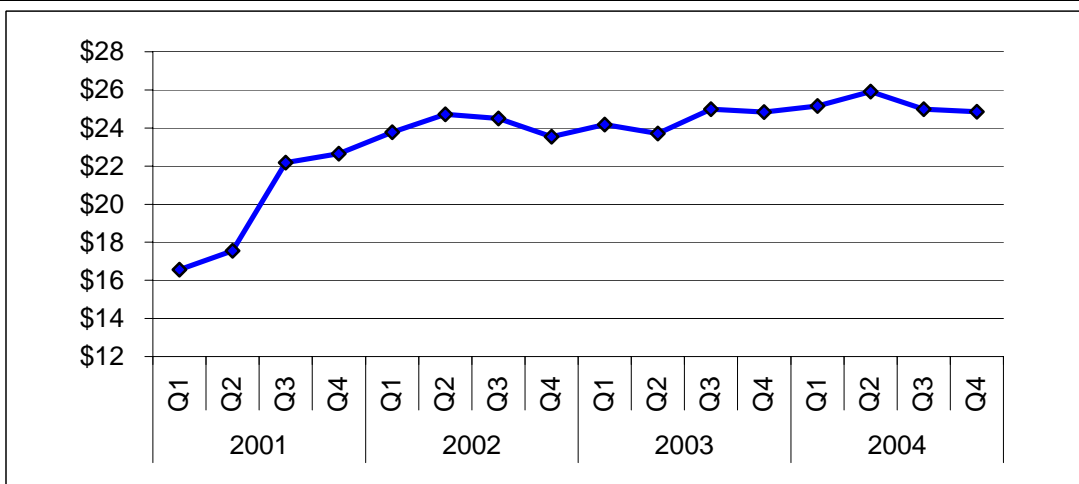
Figure 12: Paid Content Consumer Penetration



Based on Online Publishers Association/comScore Networks research
Copyright © 2005 Online Publishers Association (OPA)

Overall average of consumer spending for 2004 appears to be leveling out, and is flat over the same period last year.

Figure 13: Average Paid Content Spending Per Consumer



Based on Online Publishers Association/comScore Networks research
Copyright © 2005 Online Publishers Association (OPA)

CONCLUSIONS

- ◆ Growth in online content spending in 2004 was driven primarily by growth in the Entertainment/Lifestyles category as a result of online music sales.
- ◆ Entertainment/Lifestyles registered largest year-over-year gains and is the second largest paid content category – supporting the trend that consumers are increasingly using the Internet for entertainment.
- ◆ Spending on Personals/Dating reached an all-time high, registering significant increases in Q3 and Q4 of 2004 following first half declines. While Personals/Dating remained the leading paid content category in 2004, Entertainment/Lifestyles is on track to surpass it should its current rate of growth continue.
- ◆ Single purchase share of paid content sales hit a record high, with digital music track/album sales driving an overall shift in the single purchase versus subscription mix.
- ◆ While consumer penetration still has room to grow, the annual growth rate for paid content was substantially greater than that of the U.S. Internet population during the same time period.
- ◆ Average consumer spending for paid online content appears to be leveling out, flat from one year ago.

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 2 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 present. 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 59 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 47 *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 sixteen quarterly time periods, spanning the full years 2001 - 2004. This sixteen-quarter range provides the basis for evaluating annual revenue from 2001 through 2004.

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.

Sales figures for the Entertainment/Lifestyles category now include online music sales, which became an important segment in 2004.

APPENDIX B

Definitions of Content Categories

Business Content – Includes business news (e.g., WSJ.com) and investment advice (e.g., fool.com).

Community Directories – Includes sites whose content is created in large part through the efforts of other site visitors, for example, Ancestry.com, Classmates.com, and IMDB.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 individual downloads and subscription services (e.g., iTunes, Napster, Rhapsody, etc.) and multimedia sites (e.g., Real.com and Movielink.com), as well as 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 MSN.com), and offered direct through specialized gaming sites such as Pogo.com and Gamehouse.com.

General News – Includes sites like CNN.com, NYTimes.com and Washingtonpost.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, eHarmony.com, and Yahoo! Personals.

Research – Includes library-type research tools (e.g., Highbeam.com, Merriam-Webster, 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, Sportsline.com, MLB.com and DRF.com (Daily Racing Form).

Where content at large portal sites, such as Yahoo! or MSN, 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: ABCNews.com, About/Primedia, Bankrate.com, Belo Interactive, BusinessWeek Online, CBS MarketWatch, CBSNews.com, CNET Networks, CNN.com, CondéNet, ConsumerReports.org, Cox Enterprises, Edmunds.com, ESPN.com, Forbes.com, Hearst Corporation, Internet Broadcasting Systems, Inc., iVillage, Jupitermedia, Knight Ridder Digital, LifetimeTV.com, Meredith Corporation, MSNBC.com, MTV.com, New York Times Digital, Reuters.com, Scripps Networks, Slate, SportingNews.com, Time Inc. Interactive, Tribune Interactive, USATODAY.com, The Wall Street Journal Online, Washingtonpost.Newsweek Interactive, WeatherBug.com and weather.com.

About comScore Networks

comScore Networks provides unparalleled insight into consumer behavior and attitudes. This capability is based on a massive, global cross-section of more than 2 million consumers who have given comScore explicit permission to confidentially capture their browsing and transaction behavior, including online and offline purchasing. comScore panelists also participate in survey research that captures and integrates their attitudes and intentions. Through its patent-pending technology, comScore measures what matters across a broad spectrum of behavior and attitudes. comScore consultants apply this deep knowledge of customers and competitors to help clients design powerful marketing strategies and tactics that deliver superior ROI. For more information, please visit www.comscore.com.