



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

Conducted in partnership with



**This report covers Q1 and Q2 2004**

***November 2004***

# TABLE OF CONTENTS

<b>Introduction: Letter from the OPA President .....</b>	<b>3</b>
<b>Executive Summary .....</b>	<b>4</b>
<b>Research Details .....</b>	<b>5</b>
♦ Online Paid Content Market Continues to Grow .....	5
♦ Online Paid Content Growth Rebounds in Q1 and Q2 2004 .....	5
♦ Entertainment/Lifestyles Eclipses Business/Investment as Second Largest Paid Content Category .....	6
♦ Entertainment-related Categories Register Largest Year-Over-Year Gains .....	7
♦ Quarterly Trends Reveal Signs of Maturing Market in Some Categories.....	8
♦ Subscription Share of Paid Content Sales Reaches Highest Point Yet.....	9
♦ Single Purchase Trends Appear to be Leveling Out.....	11
♦ Most Content Sold on a Single Purchase Basis Falls Into the \$5-\$50 Range.....	12
♦ The Number of U.S. Consumers Paying for Online Content Continues to Grow .....	13
<b>Conclusions.....</b>	<b>14</b>
<b>Appendices</b>	
♦ <i>Appendix A: Research Scope and Methodology .....</i>	<i>15</i>
♦ <i>Appendix B: Definitions of Content Categories .....</i>	<i>17</i>
♦ <i>Appendix C: About the OPA and About comScore Networks .....</i>	<i>18</i>

## INTRODUCTION

The overall rate of growth for online paid content remains robust. In the first half of 2004, online content spending grew to \$853 million, up 14% over the same period in 2003.

For the first time ever, growth in paid content spending was fueled primarily by consumers using the Internet for entertainment. Entertainment/Lifestyles was the fastest growing paid content category in the first half of 2004, up 78.3% over the same period last year. Sports (which includes fantasy games), and Games also showed strong gains of 68.7% and 27.4%, respectively.

These trends support a growing body of evidence that consumers' use of the Internet is evolving far beyond functional activities. Indeed, the Internet is becoming a primary source of entertainment and fun for U.S. consumers.

Astute readers will remember that in our last report, we noted that the Entertainment/Lifestyles category registered a decline in annual 2003 spending levels compared to 2002. We attributed that decline, at least in part, to the inability of our methodology at the time to capture transactions taking place in Internet applications as distinct from Web browsers. Recognizing that music sales through such applications (e.g., iTunes, Rhapsody, MusicMatch Jukebox, etc.) emerged as an important new segment at the end of 2003, we set out to capture this important development. I am pleased to report that – working closely with our research partner, comScore Networks – our Entertainment category now includes an estimate for online music sales.\*

As always, we look forward to monitoring these and other important trends in future reports.

Yours truly,



Michael Zimbalist  
President  
Online Publishers Association

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\* See methodological note in Appendix A at the end of this report.

# EXECUTIVE SUMMARY

## **Online content spending totals \$853 million in first half of 2004**

- ◆ U.S. consumers spent \$853 million for online content in the first two quarters of 2004; this represents an increase of 14.0% over the same period in 2003
- ◆ Q1 2004 revenues were up 2.4% from the previous quarter to \$417.6 million. In Q2, total revenues grew another 4.3% over Q1 to \$435 million, driven largely by the Entertainment/Lifestyles category

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

- ◆ Entertainment/Lifestyles was the fastest growing paid content category in the first half of 2004, up 78.3% over the same period last year, while Sports and Games also showed strong gains of 68.7% and 27.4%, respectively
- ◆ Entertainment/Lifestyles was the only category to experience more than 100% year-over-year growth in Q2 of 2004 fueled by growth in online music sales
- ◆ 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 66.3% of online content spending in the first half of 2004, up from 65.2% in the year ago period

## **Subscription share of paid content sales reaches highest point yet**

- ◆ In the first half of 2004, subscription share of paid content sales hit its highest point – 90% – driven by significant subscription growth in Games, News and Research
- ◆ Monthly subscriptions accounted for 54.4% of total subscription revenues in the first half of 2004 vs. 46% in the same period last year
- ◆ Among single payments, mid-range payments (between \$5 and \$50) accounted for 74.6% of online content spending in the first half of 2004

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

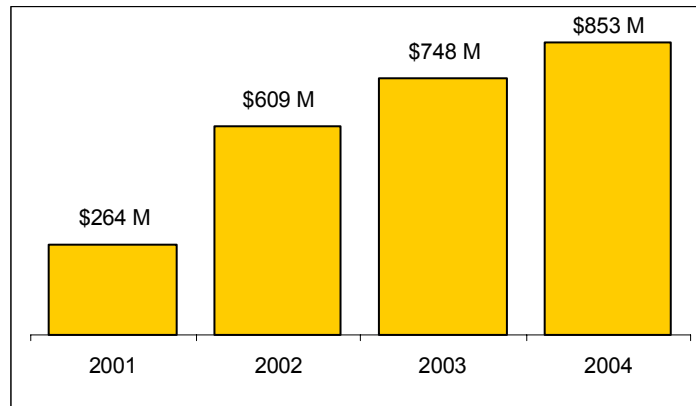
- ◆ 16.8 million U.S. consumers paid for online content in Q2 2004, up from 16.0 million who paid for content online in Q2 2003
- ◆ The growth in paid content revenue is attributable to the growth in the number of consumers buying content and not additional dollars per consumer
- ◆ The overall annual growth rate for paid content consumers during the first half of this year is still strong at nearly two and a half times the growth of the overall U.S. Internet population, but is slowing vs. earlier time periods

## RESEARCH DETAILS

### Online paid content market continues to grow

U.S. consumers spent \$853.0 million for online content in the first half of 2004, an increase of 14.0% over the same period last year. While this rate of growth is down from the 23% growth of 2003, it remains relatively robust for a maturing market.

**Figure 1: Annual Online Paid Content Revenue, Q1 and Q2**

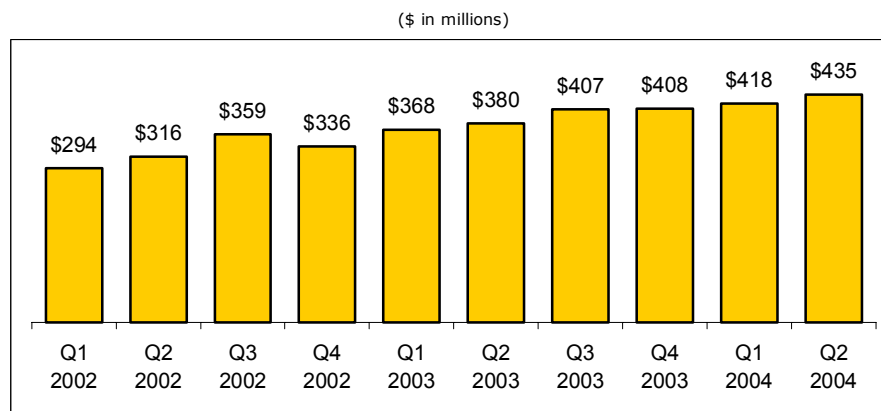


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### Online paid content growth rebounds in Q1 and Q2 2004

After a fairly flat fourth quarter of 2003, online content spending growth was back on track in Q1 and Q2 2004. Consumers spent \$418 million and \$435 million, respectively, in Q1 and Q2 of this year, driven primarily by explosive growth in the entertainment category and specifically, online music sales.

**Figure 2: Consumer Spending on Online Content by Quarter**



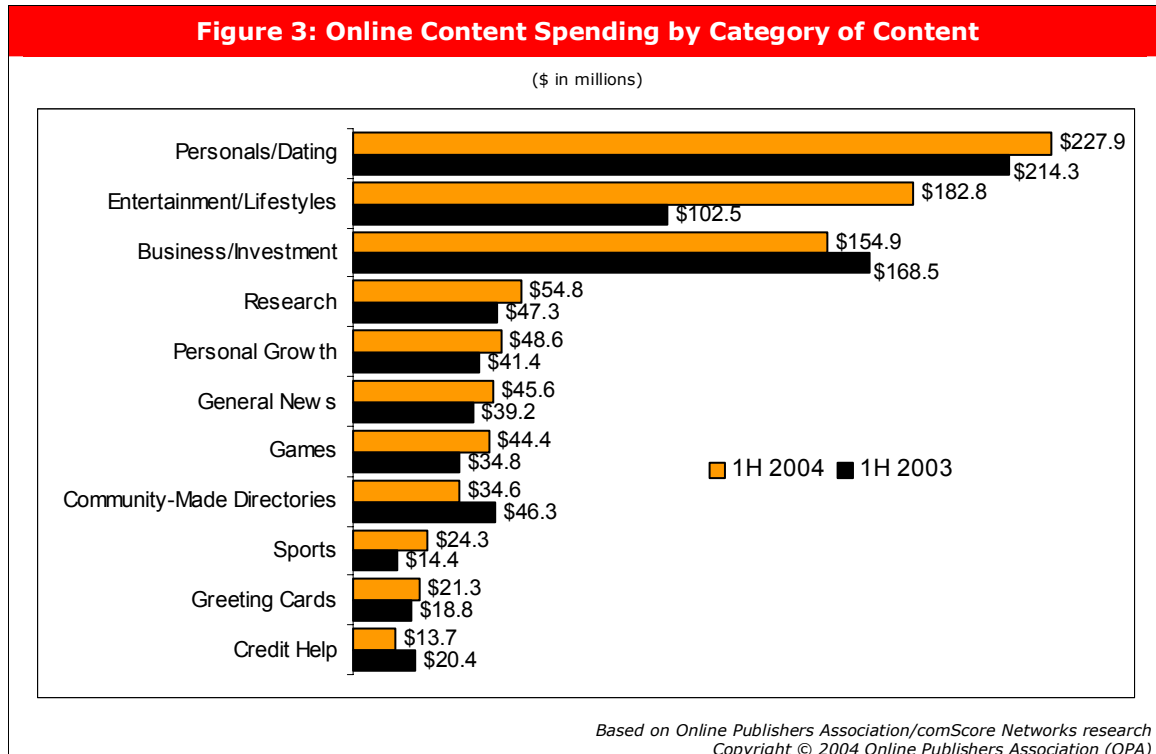
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## Entertainment/Lifestyles eclipses Business/Investment as second largest paid content category

Entertainment/Lifestyles eclipsed Business/Investment content in Q2 2004 to become the second largest paid content category. Spending in the Entertainment category – fueled primarily by growth in the music segment<sup>1</sup>, grew to \$182.8 million in the first half of 2004, a 78.3% increase over the same period last year. At the same time, Business/Investment content registered its first-ever year-over-year decline in the first half of 2004, falling 8.0% to \$154.9 million.

The top three categories – Personals/Dating, Entertainment/Lifestyles and Business/Investment – accounted for 66.3% of online content spending in the first half of 2004, up from 65.2% in the year ago period.

Personals/Dating held its position as the leading paid content category, with U.S. consumers spending \$227.9 million on Personals/Dating content in the first half of 2004, up 6.4% over 2003.



A definition of each category is provided in Appendix B.

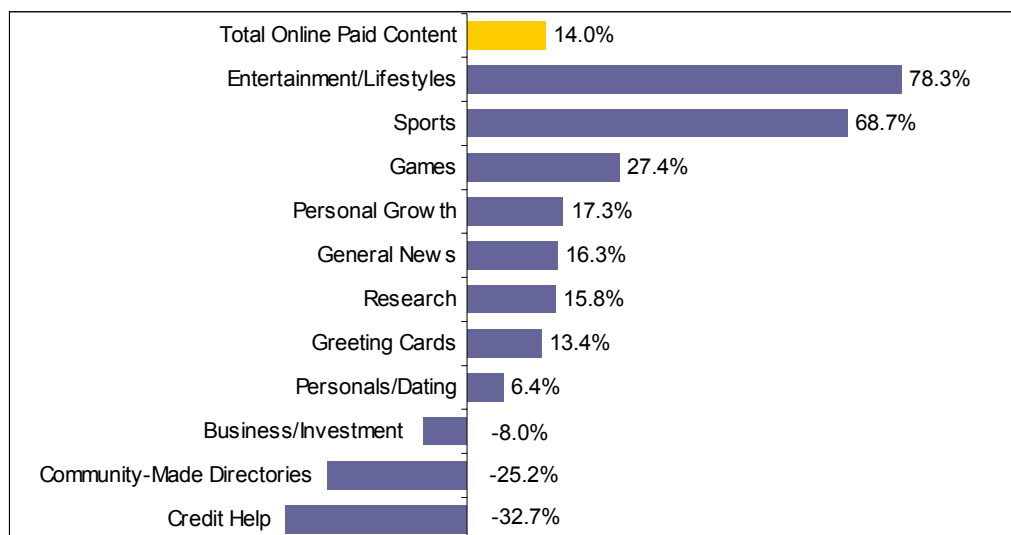
<sup>1</sup> As an important, emerging segment, online music sales were added for the first time to this report and were included in the Entertainment/Lifestyles category. Those music sales reflect a combination of observed and estimated sales. See Appendix A for additional methodological information.

## Entertainment-related categories register largest year-over-year gains

Entertainment/Lifestyles was the fastest growing paid content category in the first half of 2004, up 78.3% over the same period last year, while Sports and Games also showed strong gains of 68.7% and 27.4%, respectively.

Six categories exceeded the growth rate for online paid content overall.

**Figure 4: % Growth from Previous Year, 1H 2004**



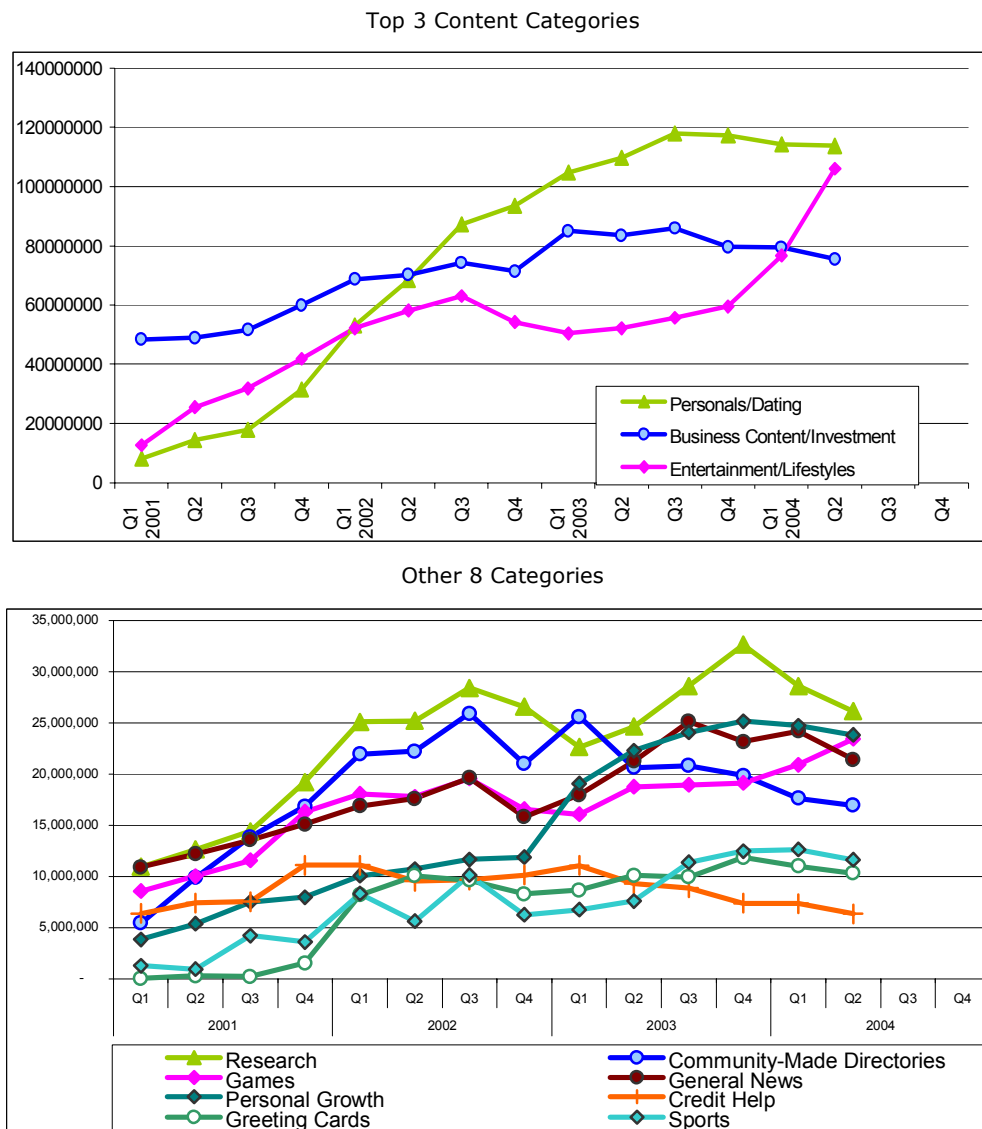
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## Quarterly trends reveal signs of maturing market in some categories

Both the Personals/Dating and Business/Investment categories registered steady declines in each of the last three quarters since peaking in Q3 2003. The declines in Personals/Dating are particularly noteworthy, as they reverse a two and a half year period of rapid category growth. The Personals/Dating category is likely normalizing after a period of intense publicity.

Notable decreases were also seen in Credit Help and Community-Made Directories over the last six quarters.

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



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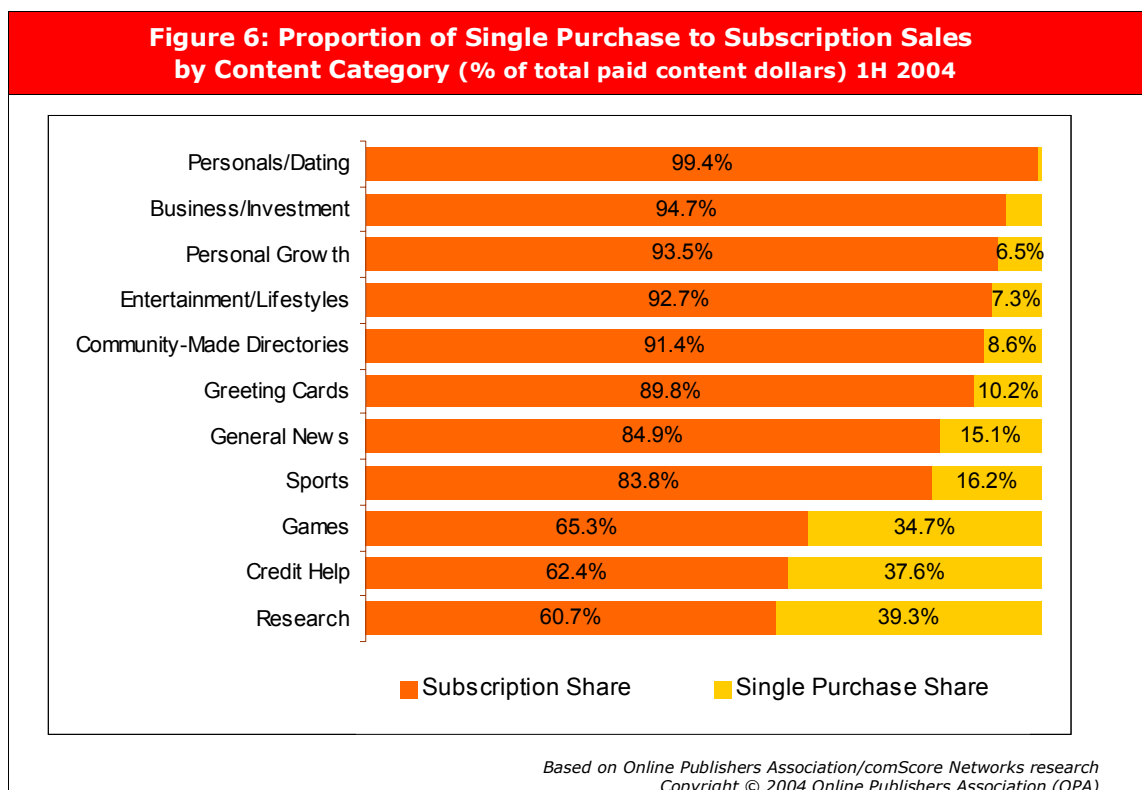
In contrast, Games has registered steady gains since Q2 of last year. Should its current rate of growth continue, it will soon become the fourth largest paid content category.

## Subscription<sup>2</sup> share of paid content sales reaches highest point yet

In the first half of 2004, subscription share of paid content sales hit its highest point – 90% – driven by a significant shift from single purchases to the subscription model in the Games, News and Research categories.

While Games still attributes a significant portion of its paid content dollars to single purchases, it registered one of the most dramatic gains in subscription share over time, up from 48.4% in 2002 to 65.3% in the first half of 2004.

Credit Help experienced the opposite trend, with single purchases accounting for 37.6% of revenue in the category in the first half of 2004, as opposed to just 20.3% for the full year 2003 and only 9.8% in 2002.

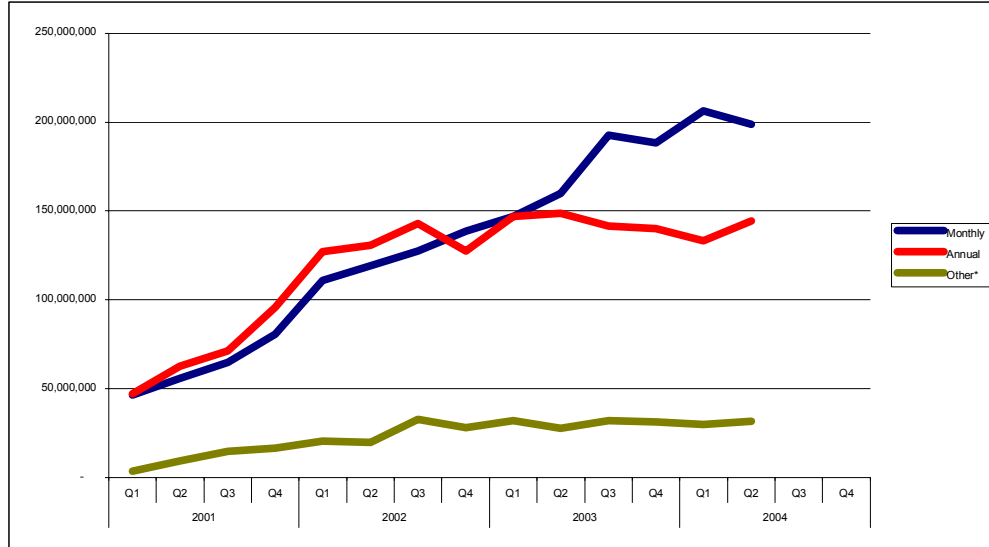


We believe that the planned inclusion of online music sales in the payment model analysis in the second half of 2004 will likely drive a substantial increase in single payment share in the Entertainment category.

<sup>2</sup> The subscription and single purchase sales analyses contained on pages 9-12 of this report exclude online music sales taking place in Internet applications as distinct from Web browsers. It is anticipated that beginning with the full year 2004 report, these analyses will incorporate observed sales from all major music applications.

Monthly subscriptions accounted for 54.4% of total subscription revenues in the first half of 2004 vs. 46% in the same period last year, as growth in monthly subscription revenue continues to outpace annual subscription revenue growth.

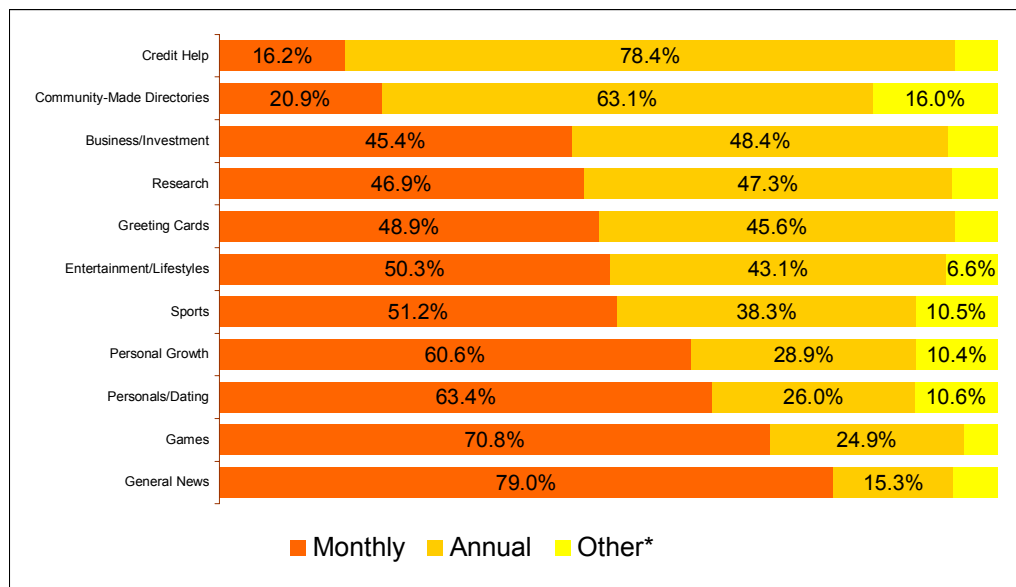
**Figure 7: Growth in Quarterly Spending by Pricing Model**



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Credit Help and Community-Made Directories are the only categories in which annual subscriptions continue to account for the majority of subscription revenue.

**Figure 8: Share of Subscription Revenue by Type, 1H 2004**

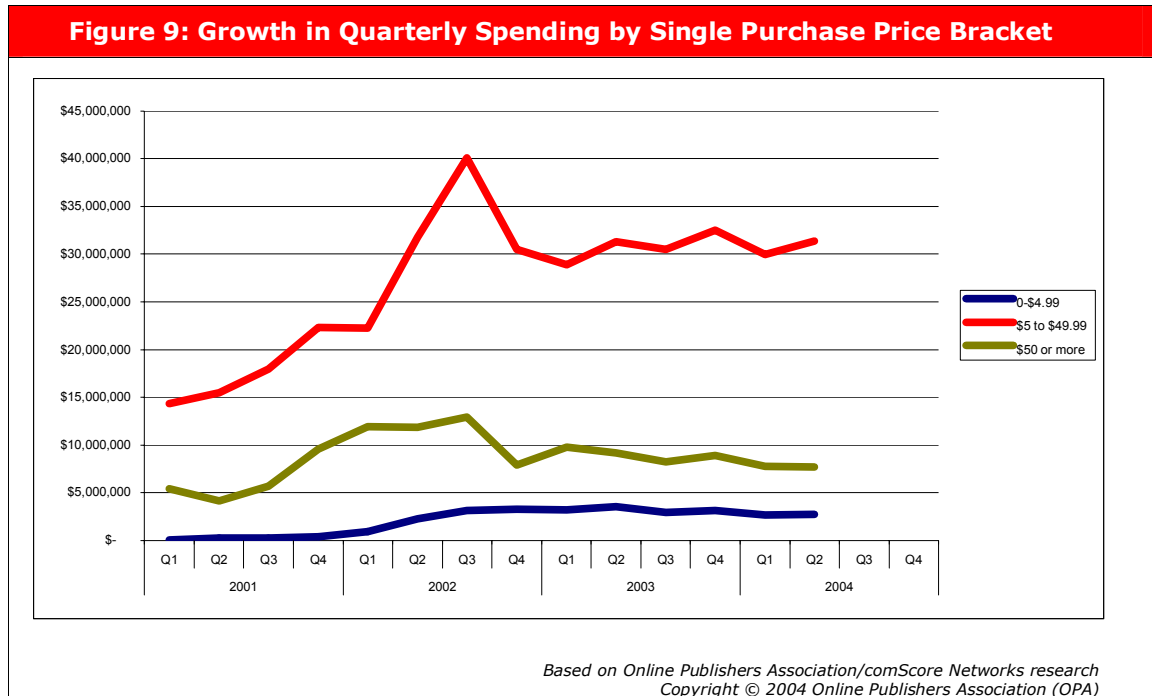


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## Single purchase<sup>2</sup> trends appear to be leveling out

Among single payments, mid-range payments (between \$5 and \$50) accounted for 74.6% of single payment revenue in the first half of 2004.

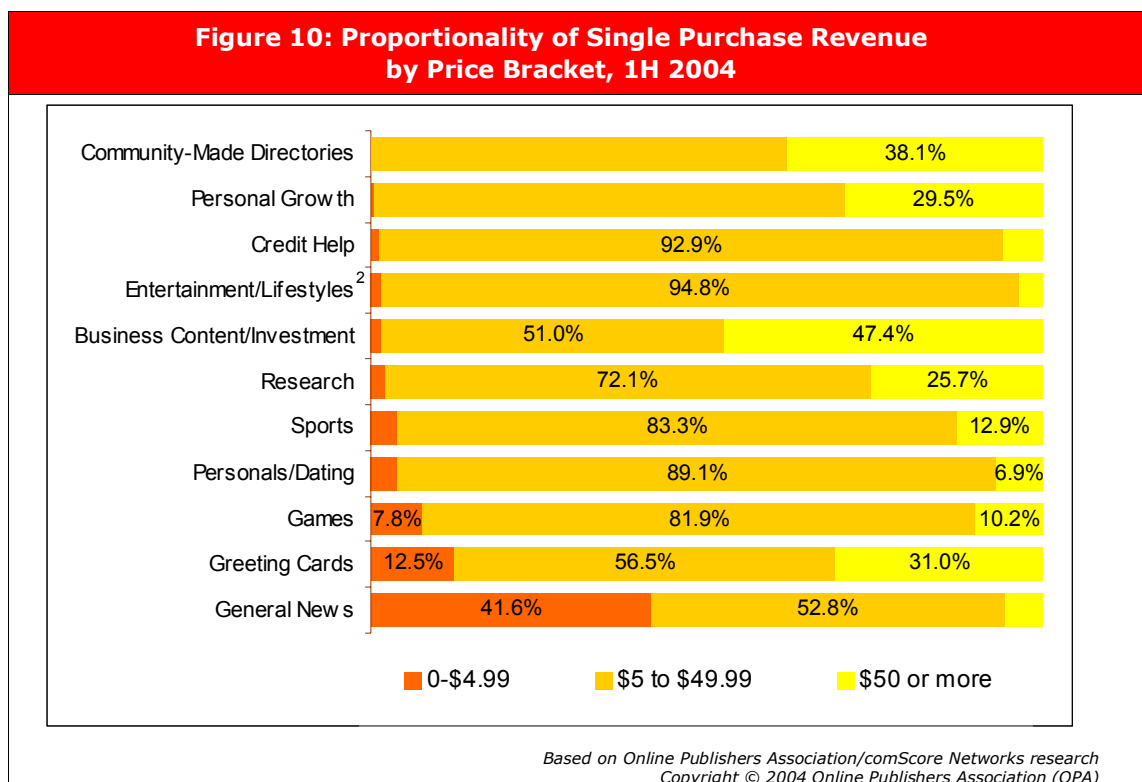
Over the last six quarters, single purchase trends in all three price brackets (\$0 to \$4.99, \$5 to \$49.99 and \$50 or more) appear to be leveling out.



<sup>2</sup> The subscription and single purchase sales analyses contained on pages 9-12 of this report exclude online music sales taking place in Internet applications as distinct from Web browsers. It is anticipated that beginning with the full year 2004 report, these analyses will incorporate observed sales from all major music applications.

## Most content sold on a single purchase basis falls into the \$5-\$50 range<sup>2</sup>

Business/Investment content and Community-Made Directories had the highest proportion of sales above the \$50 price point in the first half of 2004, followed Greeting Cards at 31%.



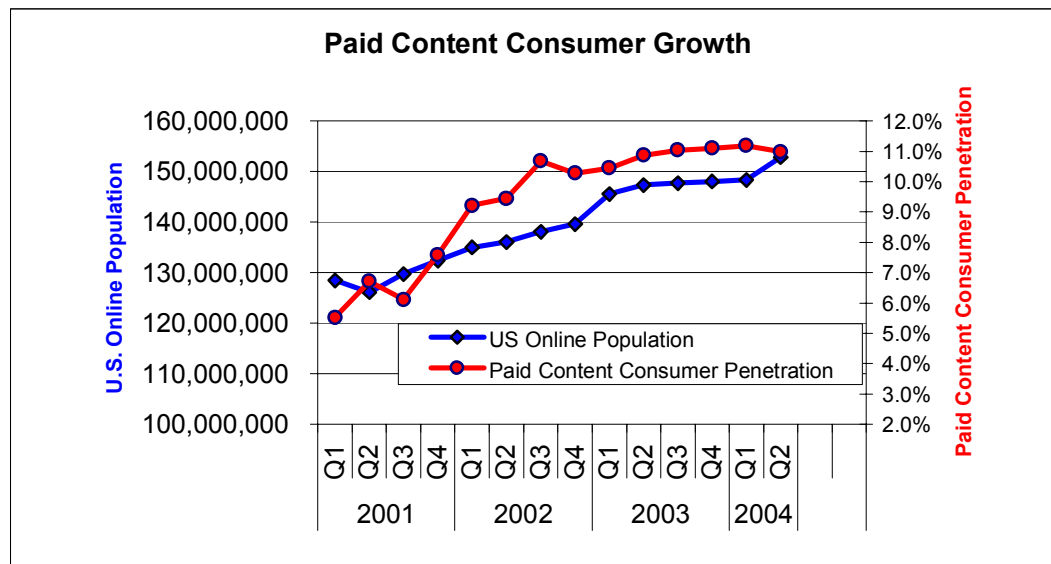
While micropayments still account for a significant portion of single purchase revenue in the General News category, sales in the \$5 to \$49 range are gaining ground, up from 49.7% for the full year 2003 to 52.8% in the first half of this year.

<sup>2</sup> The subscription and single purchase sales analyses contained on pages 9-12 of this report exclude online music sales taking place in Internet applications as distinct from Web browsers. It is anticipated that beginning with the full year 2004 report, these analyses will incorporate observed sales from all major music applications.

## The number of U.S. consumers paying for online content continues to grow

Online paid content consumer penetration<sup>3</sup> reached 11.2% in Q1 2004, before falling slightly to 11.0% in Q2 2004. Overall penetration appears to be leveling out, registering ever-so-slight year-over-year growth of 1.1% in Q2 2004, as paid content consumers grew 4.8% while the Internet population grew 3.7%.

**Figure 11: Paid Content Consumer Growth**



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While growth in consumer penetration has slowed considerably, there appears to remain significant room for growth by acquisition among the population that is already currently making eCommerce transactions online - roughly 30% of the U.S. Internet population in Q2 2004.

<sup>3</sup> The number of paid content consumers does not include those who may be purchasing content in Internet applications as distinct from Web browsers and not elsewhere online. It is anticipated that the full year 2004 report will incorporate such consumers.

## CONCLUSIONS

- ◆ Growth in online content spending in the first half of 2004 was fueled primarily by growth in online music sales, which began in earnest at the end of last year
- ◆ The entertainment-related categories, including Sports and Games, registered the largest year-over-year gains, reflecting the fact that consumers are increasingly turning to the Internet as a means of entertainment, as opposed to a functional tool
- ◆ Subscription share of paid content sales hit its highest point yet, with growth in monthly subscription revenue continuing to outpace annual subscription revenue growth
- ◆ Consumer penetration still has much room for expansion, even among consumers who are already making online transactions
- ◆ The phenomenal increase in total online paid content spending is still almost exclusively being driven by customer acquisition; per consumer spending has been fairly constant through the last 8 quarters of analysis

# APPENDIX A

## Research 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 1.5 million active U.S. Internet users. This technology allows comScore to monitor (with panelists' permission) "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 mine its massive database of online consumer behavior for 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 an ongoing random-digit dial enumeration study.

The study covers fourteen quarterly time periods, including the full years 2001, 2002 and 2003, and the first half of 2004. This fourteen-quarter range provides the basis for evaluating both annual revenue from 2001 through 2003, and quarterly growth from the first quarter of 2001 to the second quarter of 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.

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.

Sales figures for the Entertainment/Lifestyles category now include online music sales, which became an important segment in 2004. The online music sales included in this report reflect a combination of observed sales where available (e.g., Napster and Wal-Mart Music) and estimated sales for those taking place in applications that the observational methodology was unable to capture (e.g., iTunes for Windows, Rhapsody, MusicMatch Jukebox, etc.). Where included, estimates were derived from a combination of observed data for related metrics, such as registered users, usage frequency and overall traffic, as well as publicly available information. It is anticipated that beginning with the full year 2004 report, observed sales from all major music applications will be incorporated.



# APPENDIX B

## Definitions of Content Categories

**Business Content** – Includes business news (e.g., WSJ.com) and investment advice (e.g., changewave.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 Movielink.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 Pogo.com and Gamehouse.com.

**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 eHarmony.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! 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, Consumer Reports, Cox Enterprises, Edmunds.com, ESPN.com, Forbes.com, Hearst Corporation, Internet Broadcasting Systems, Inc., iVillage, Jupitermedia, Knight Ridder Digital, 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 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](http://www.comscore.com).