



ONLINE PAID CONTENT U.S. MARKET SPENDING REPORT

Conducted in partnership with



This report covers FY 2003

May 2004

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INTRODUCTION

Three years into our paid content report, and the market continues to grow. While consumer content spending in 2003 dipped slightly in Q4 from its levels in Q3 (the same seasonal trend we witnessed in 2002), 2003 saw consumer spending for online content grow to nearly \$1.6 billion, a healthy 18.8% increase over 2002, despite a generally weak economy.

The Personal Growth and Sports categories experienced the most rapid year-over-year growth in Q4 of 2003, followed by General News. However, the top 3 categories – Personals/Dating, Business/Investment and Entertainment/Lifestyles – still accounted for 64.0% of total spending for the year.

It would be remiss for us not to mention that the Entertainment/Lifestyles category registered a decline in 2003 spending levels compared to 2002. We suspect that this is a result of our current data collection approach, which by design does not include transactions taking place in non-browser Internet applications (i.e. iTunes). We believe application-based paid content delivery is likely to have grown significantly in the past year and will become an increasingly important trend. As such, we are currently exploring approaches to capture this important data so that it may be included in future reports. This is especially important given the increasing body of research, including some of our own, which shows that the Internet is becoming a primary source of entertainment, particularly among young people whose future behavior is certain to impact the market for paid content.

While it's no surprise that the subscription model remains dominant as opposed to single-purchase sales, it is notable that monthly subscriptions registered a sharp rise in 2003, surpassing annual subscriptions as the reigning model.

Finally, the growth in total online paid content spending is still almost exclusively being driven by customer acquisition. In addition, there continues to be a significant opportunity to close the gap between paid content consumer penetration and overall eCommerce penetration by converting more and more online buyers into paid content consumers.

We look forward to monitoring these and other trends as we move through 2004.

Yours truly,

Michael Zimbalist
President
Online Publishers Association

EXECUTIVE SUMMARY

Full year consumer spending for online content totals nearly \$1.6 billion

- ◆ U.S. consumers spent \$1.56 billion for online content in 2003; this represents an increase of 18.8% over calendar year 2002
- ◆ Paid content spending by quarter shows clear seasonal trends, once again peaking in Q3 and dipping in Q4
- ◆ While Q4 2003 showed the same quarter-over-quarter decline in online paid content revenue observed in Q4 2002, there is no clear indication that the adoption cycle is coming to an end

Proportion of spending on top three categories is higher in 2003

- ◆ The top three categories – Personals/Dating, Business/Investment Content and Entertainment/Lifestyles – accounted for 64.0% of online content spending in 2003, slightly higher than the 62.6% spent on those categories in 2002
- ◆ In 2003, the Personals/Dating category held its position as the largest paid content category, leading Business/Investment Content and Entertainment/Lifestyles
- ◆ Consistent with behavior of a maturing market, individual category growth rates have attenuated, with only one category – Personal Growth– showing over 100% year-over-year growth

Subscriptions, as opposed to single purchase sales, continue to be the dominant pricing model for online content sales

- ◆ For 2003, monthly subscriptions overtook annual subscriptions as the dominant model
- ◆ Retention rates remain high, with 71.0% of those who subscribed for monthly payments still visiting fee-restricted content areas 12 months later
- ◆ The average conversion rate for those who signed up for free trial offers becoming paid subscribers was 18.0%, up only slightly from the 2002 free trial conversion rate of 17.8%

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

- ◆ 16.4 million U.S. consumers paid for online content in Q4 2003, up 2.1 million from the number who paid for content in Q4 2002.
- ◆ The year-over-year growth in consumer acceptance of online paid content is 7.7%, from 10.3% of the U.S. Internet population in Q4 2002 to 11.1% of the U.S. Internet population in Q4 2003

Spending on online content per consumer holds constant

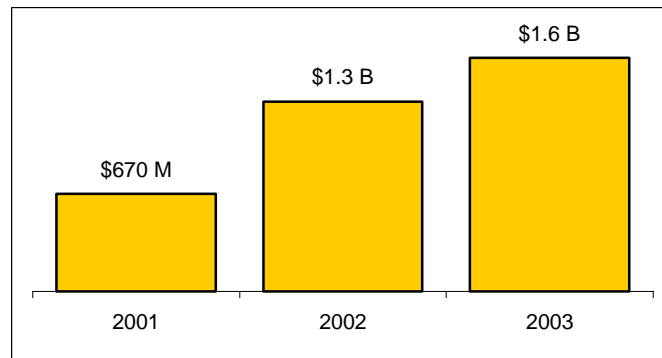
- ◆ The 18.8% growth rate in paid content revenue is attributable to the growth in the number of consumers buying content and not additional dollars per consumer
- ◆ The average spending per paid content customer increased only 4.5% from Q4 2002 to Q4 2003
- ◆ The average price for annual subscriptions online was \$48.65 in 2003
- ◆ The average price for monthly subscriptions online was \$11.02 in 2003
- ◆ The average price for single content items purchased online was \$21.67 in 2003

RESEARCH DETAILS

Online paid content market continues to grow

U.S. consumers spent \$1.56 billion for online content in 2003, continuing a steady two-year trend of growth. Online content spending in 2003 was up 18.8% year-over-year.

Figure 1: Annual Online Paid Content Revenue

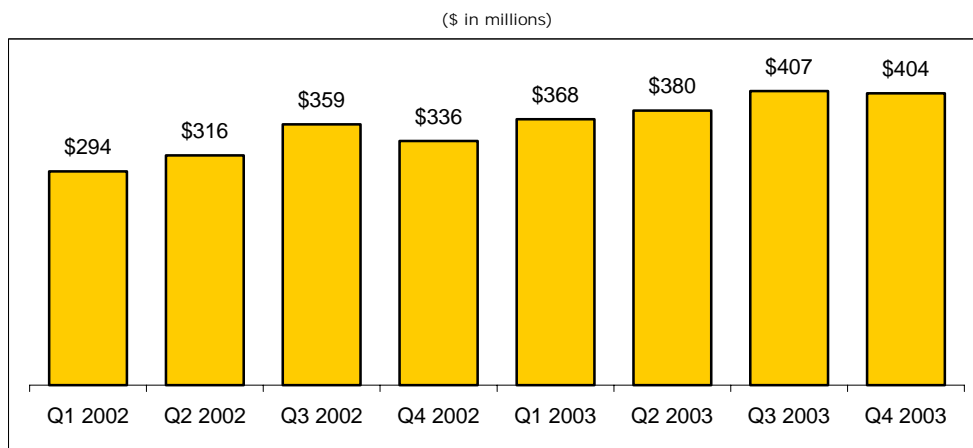


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Seasonality trend continues with Q4 showing a slight drop from Q3

Q4 continues a two-year seasonal trend of a slight dip from Q3, while overall consumer spending online continues to show rapid growth.

Figure 2: Consumer Spending on Online Content by Fiscal Quarter



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Category Trends

U.S. consumers spent \$449.5 million on Personals/Dating content in 2003, up 48.8% over 2002.

The top three categories – Personals/Dating, Business/Investment Content and Entertainment/Lifestyles – collectively make up 64.0% of all consumer spending for online content in 2003. This is up slightly from 62.6% in 2002.

Spending in the Entertainment/Lifestyles category decreased slightly in 2003 by 5.9%.

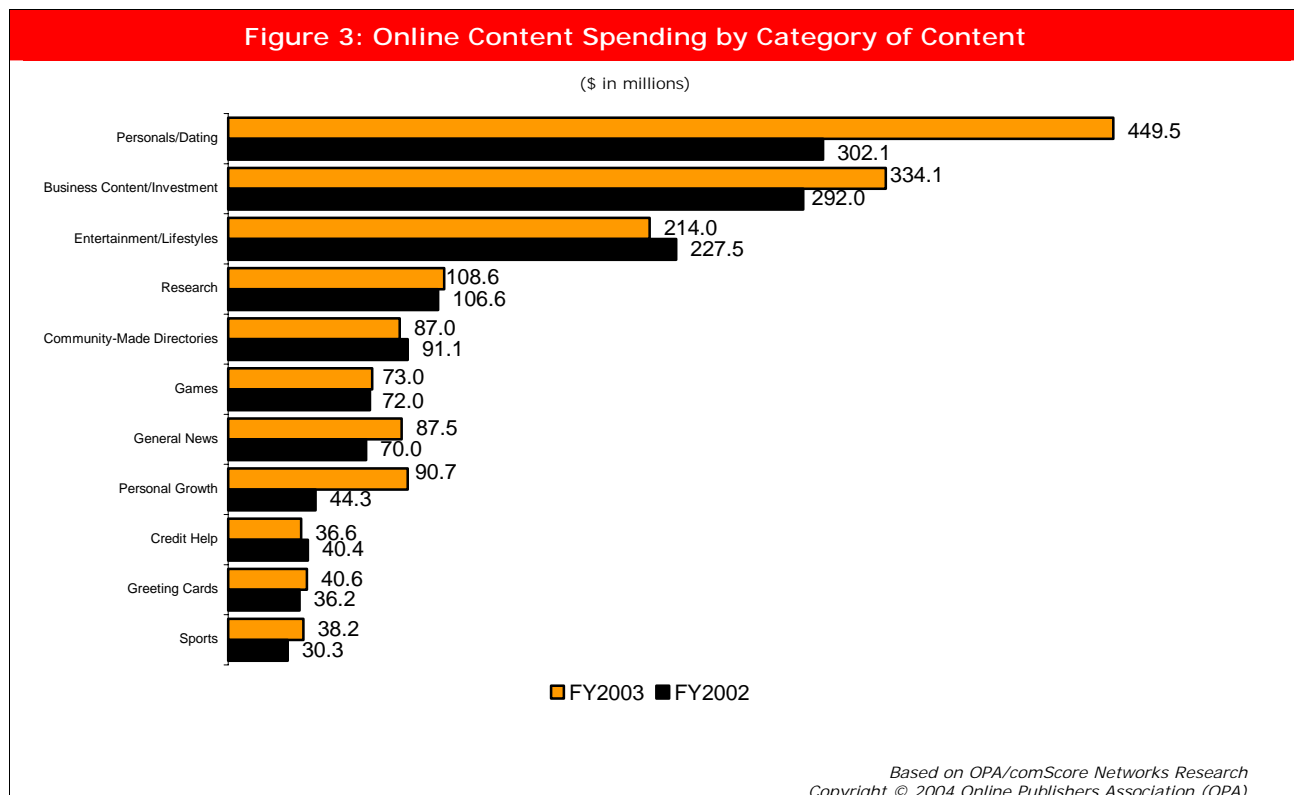
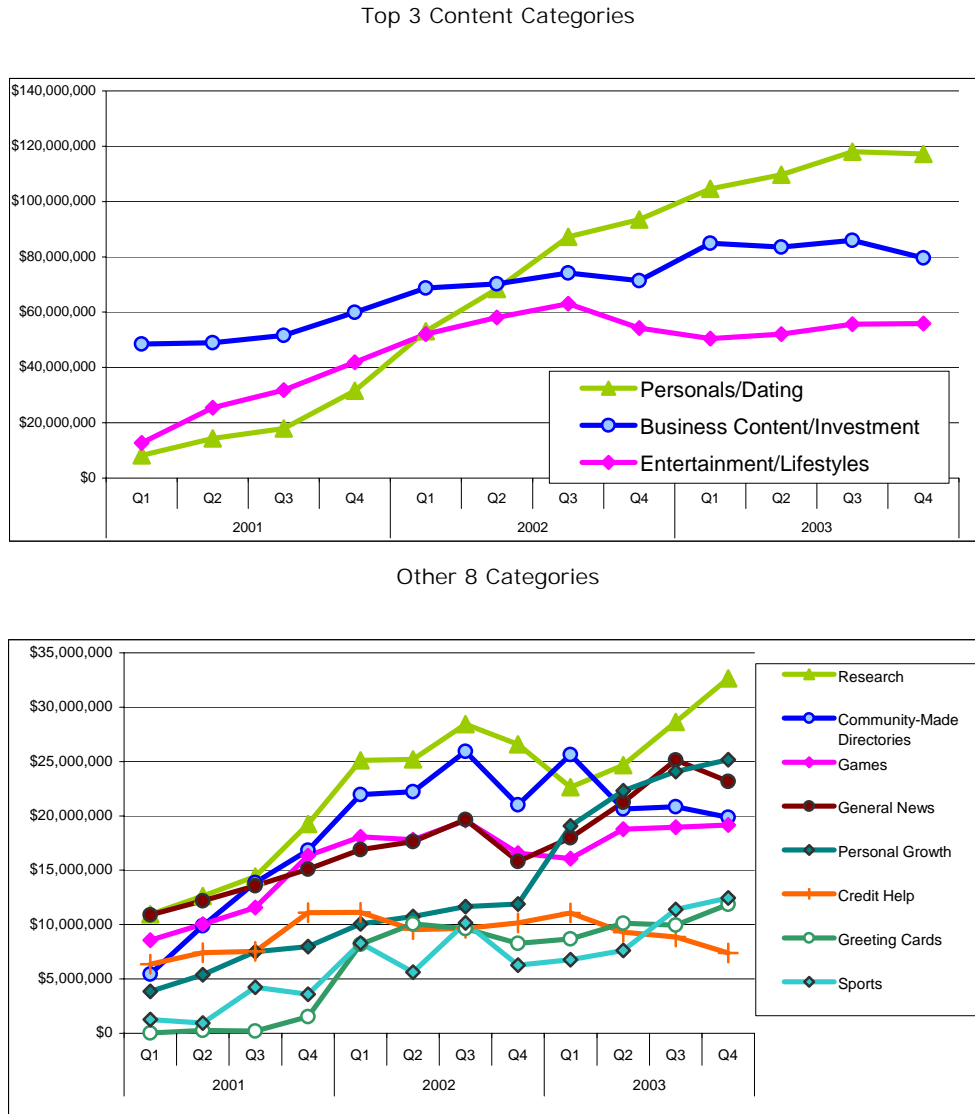


Figure 4: Online Content Spending by Category of Content



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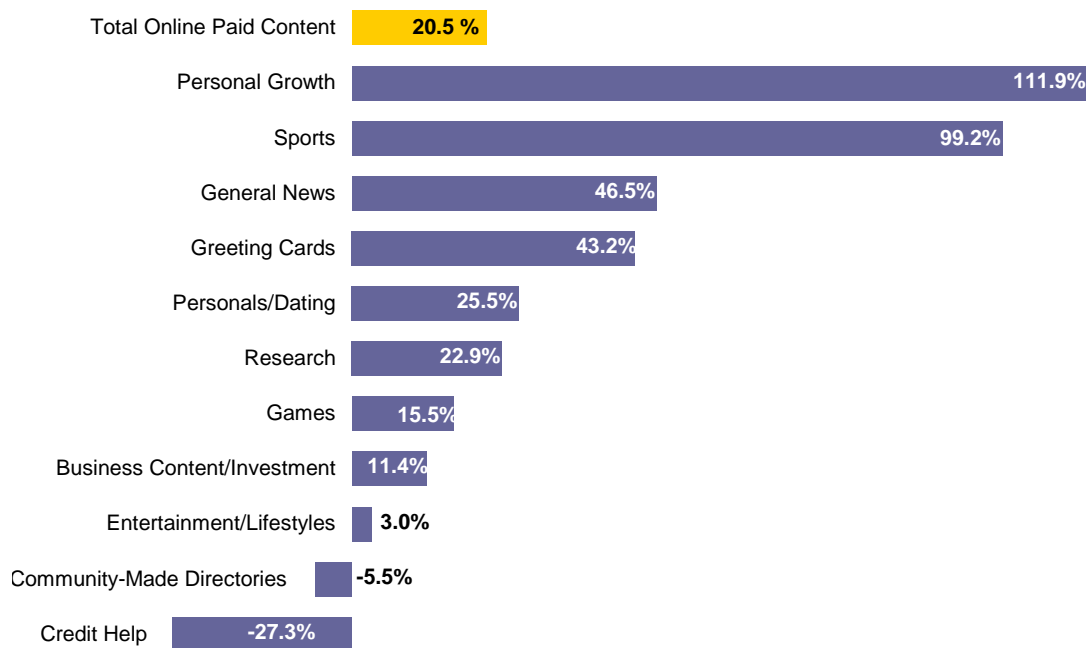
A definition of each category is provided in Appendix B.

Spending in the Research category reversed the slight decline we saw from Q3 2002 to Q1 2003 and began to rise again. General News followed a similar pattern.

Year-over-year growth rates by category

Personal Growth was the fastest growing category year-over-year in Q4 2003, followed by Sports and then General News. Six categories exceeded the growth rate for online paid content overall.

Figure 5: Q4 2003 % Growth from Previous Year



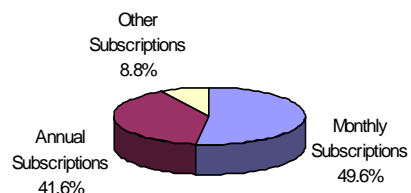
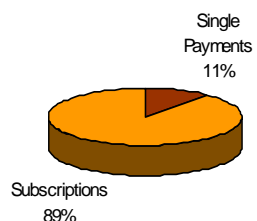
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Subscriptions continue to be the dominant pricing model for online content sales

While subscriptions continue to be the dominant pricing model, 2003 saw a sharp rise in monthly subscriptions from 44.1% to 49.6%. Monthly subscriptions have now surpassed annual subscriptions as the predominant revenue model for purveyors of content online.

Subscriptions overall grew to an 89.0% share of total online paid content revenue while single purchase transactions shrank slightly.

Figure 6: Proportion of 2003 Content Spending by Pricing Model



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Games and Research are the two categories that attribute a significant portion of their paid content dollars to single purchases rather than subscriptions.

Figure 7: Proportion of Single Purchase to Subscription Sales by Content Category (% of total paid content dollars) FY 2003

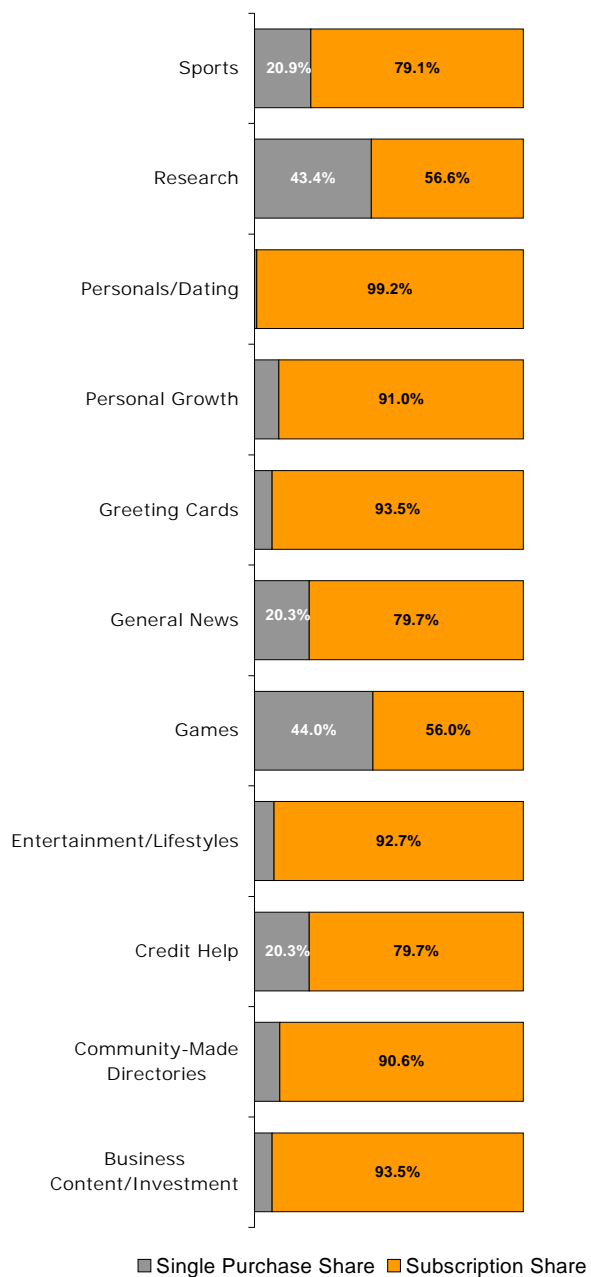
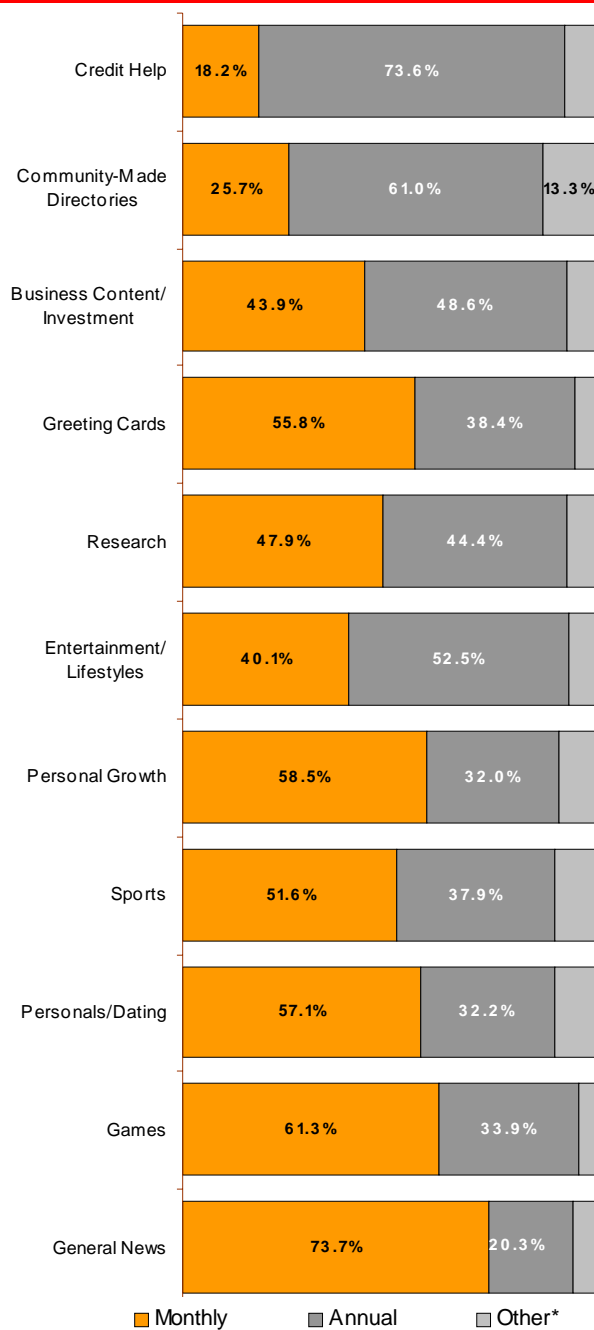


Figure 8: Types of Subscriptions by Content Category (% of subscription dollars) FY 2003



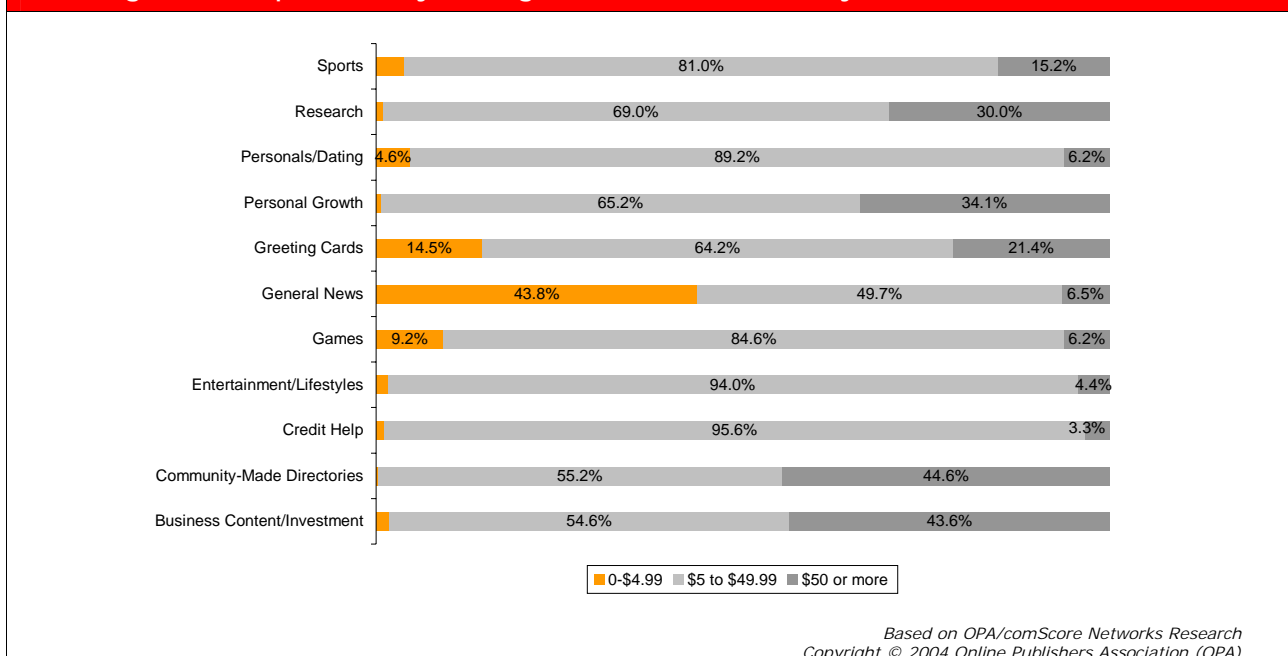
* "Other" includes weekly, biweekly, quarterly, semi-annually and other non-standard subscription terms.

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Most content sold on a single purchase basis falls into the \$5-\$50 range

Community Directories and Business/Investment Content had the highest proportion of sales above the \$50 price point.

Figure 9: Proportionality of Single Purchase Revenue by Price Bracket FY 2003

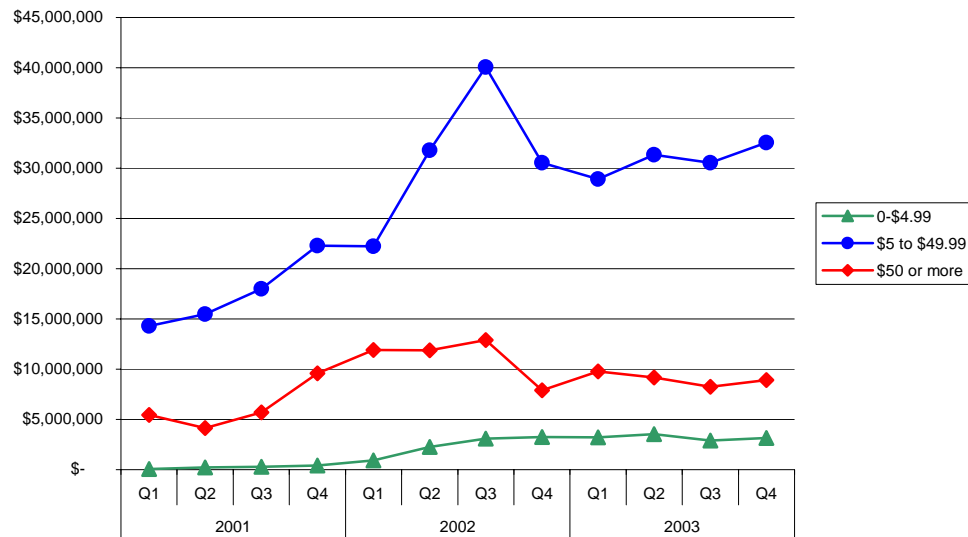


While micropayments grew 34.0% year-over-year, they still represented less than 1% of total sales, generating only 12.8 million dollars in revenue, primarily in the General News category.

Single purchases appear to be leveling out

The average price for single purchase content transactions was \$21.67 in 2003, down 4.3% from the 2002 average.

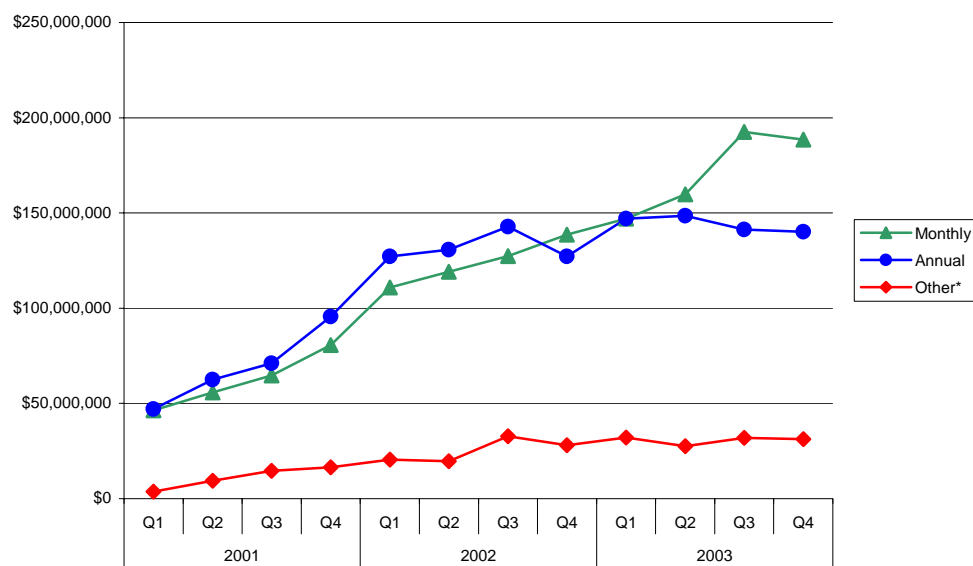
Figure 10: Growth in Quarterly Spending by Single Purchase Price Bracket



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Monthly subscription revenue continues the Q4 2002 trend of out pacing annual subscription revenue.

Figure 11: Quarterly Spending by Pricing Model

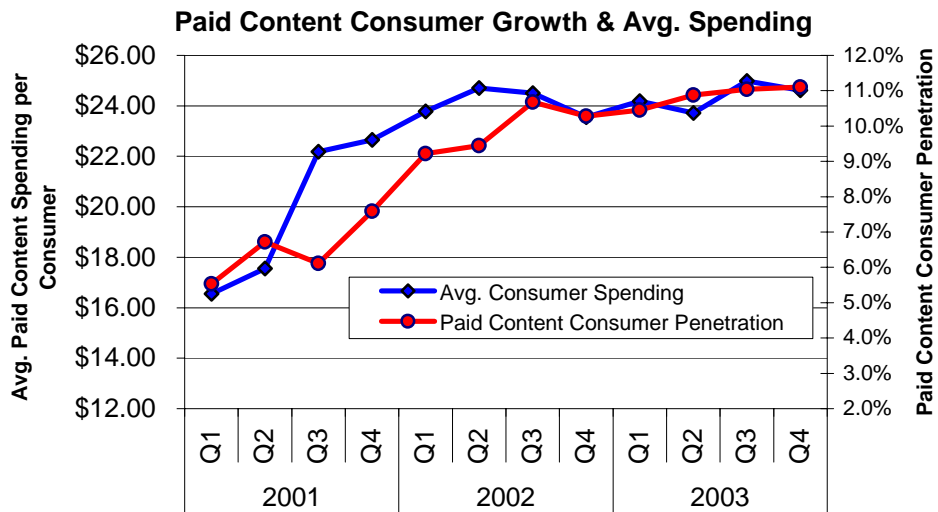


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The number of U.S. consumers paying for online content continues to grow

Online paid content consumer penetration reached 11.1% in Q4 2003. Penetration had year-over-year growth of 7.8% in Q4 2003, as paid content consumers grew by 14.5% while the Internet population grew by 6.0%.

Figure 12: Paid Content Consumer Growth and Average Spending



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Despite slowing of growth in consumer penetration, there is still much opportunity for growth by acquisition. With monthly eCommerce penetration ranging from 22 to 30 percent in 2003, there is still plenty of room for growing the number of paid content consumers within the population that is already currently making transactions online.

Average annual subscription price dips slightly, while monthly price shows strong gains

The growth in customer acquisition is clearly driving paid content revenue growth, as spending per consumer has varied less than \$3 in the last 10 quarters of this analysis.

The following chart summarizes the changes in average amounts paid by consumers for online content in the major pricing models during 2001, 2002, and 2003:

Figure 13: Average Subscription Price by Pricing Model			
	FY 2001	FY 2002	FY 2003
Average Annual Subscription Amount	\$49.69	\$48.94	\$48.65
Average Monthly Subscription Amount	\$8.46	\$10.32	\$11.02
Average Single Payment Amount	\$17.89	\$22.64	\$21.67

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Top 25 Site Rankings

Figure 14: Top 25 Web Destinations Ranked by 2003 Consumer Content Revenue	Figure 15: Top 25 Web Destinations Ranked by 2002 Consumer Content Revenue
<ol style="list-style-type: none"> 1. yahoo.com 2. real.com 3. match.com 4. classmates.com 5. wsj.com 6. ediets.com 7. matchmaker.com 8. weightwatchers.com 9. consumerreports.org 10. 1800ussearch.com 11. kiss.com 12. ancestry.com 13. bluemountain.com 14. carfax.com 15. playboy.com 16. pressplay.com 17. espn.go.com 18. ieee.org 19. egreetings.com 20. msn.com 21. astrology.com 22. thestreet.com 23. britannica.com 24. consumerinfo.com 25. smartmoney.com 	<ol style="list-style-type: none"> 1. yahoo.com 2. match.com 3. real.com 4. classmates.com 5. wsj.com 6. weightwatchers.com 7. ancestry.com 8. consumerinfo.com 9. matchmaker.com 10. 1800ussearch.com 11. consumerreports.org 12. espn.go.com 13. carfax.com 14. thestreet.com 15. bluemountain.com 16. playboy.com 17. kiss.com 18. msn.com 19. egreetings.com 20. ieee.org 21. arttoday.com 22. pressplay.com 23. britannica.com 24. astrology.com 25. smartmoney.com

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eDiets joined the top 25 at number six. Yahoo.com, real.com, match.com, and wsj.com were again in the top five as consistent with 2002 and 2001.

CONCLUSIONS

- ◆ The slight dip in Q4 quarterly revenue is primarily a reflection of the seasonality, rather than a slowdown in the paid online content market; paid content growth, though slowing, is keeping pace with overall eCommerce growth
- ◆ Consumer penetration still has much room for expansion, even among consumers who are already making online transactions
- ◆ Product offerings will continue to become more highly developed, and are already demonstrating sensitivity to consumers' focus on convenience and value; the varying levels of emphasis on each will likely be dependent on type of content
- ◆ 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 6 quarters of analysis

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 1.5 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 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 bi-weekly random-digit dial enumeration study.

The study covers twelve quarterly time periods, including the full years 2001, 2002 and 2003. This twelve-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 fourth quarter of 2003.

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: ABCNews.com, About/Primedia, Bankrate.com, Belo Interactive, CBS MarketWatch, CBSNews.com, CNET Networks, CNN.com, CondéNet, 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, Tribune Interactive, USATODAY.com, The Wall Street Journal Online, Washingtonpost.Newsweek Interactive and weather.com.