



ONLINE PAID CONTENT U.S. MARKET SPENDING REPORT

Conducted in partnership with



This report covers Q4 and FY 2002

March 2003

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INTRODUCTION

The year 2002 will go down as the year in which the conventional wisdom about paid online content changed. Whether or not consumers will pay for content is no longer a matter of debate. Clearly, they will. In fact, by the end of 2002, one in ten online users in the U.S. were regularly paying for some form of content, and total content sales for the year reached \$1.3 billion dollars. This is the second consecutive year in which paid content revenues registered an annual growth rate of nearly 100%.

Growth at this pace cannot be sustained forever, and there are indeed some signs that it is beginning to attenuate. After seven successive upward quarters, Q4 2002 recorded a slight dip in revenues compared to Q3, though total revenues for the quarter were still nearly 50% higher than the corresponding quarter in 2001. Further, even though revenues for all measured content categories grew substantially in 2002 relative to 2001, by Q4 of '02, only three – Greeting Cards, Personals/Dating and Sports – were growing at rates above the annual average. This is in sharp contrast to Q1 2002, when quarterly revenues were up more than 150% from the corresponding quarter in 2001, and six categories were growing at rates above the average.

So as we move into 2003, the question looming for content providers is this: What types of content or services will fuel continued growth in consumer spending? While nothing in this report is prospective, we believe that two developments in the past year are certain to factor into the ultimate answer to this question.

First is the continued penetration of broadband, which now reaches a preponderance of users at work and approximately 16 million U.S. households. One undeniable conclusion to be drawn from our paid content studies is that consumers will pay for content they feel passionate about if it is packaged and priced appropriately. Broadband paves the way for services offering video, music and sports, all of which have the potential to fit these criteria.

The second development in 2002 was the dominance of sites that aggregate large amounts of content among the top revenue generators. Examples include real.com and Yahoo!, which topped the paid content rankings this past year. Interestingly, a new entrant into the top 25 paid sites for 2002 is music aggregator pressplay.com, which, in our view, is indicative of the type of service that has the potential to generate substantial subscription revenues.

As the coming year unfolds, we look forward to seeing which new products entice consumers to part with their hard-earned dollars, and which sites are first to market with offerings that continue to evolve and grow the market for paid online content.

Yours truly,

Michael Zimbalist
Executive Director
Online Publishers Association

EXECUTIVE SUMMARY

Full year consumer spending for online content totals \$1.3 billion

- ◆ U.S. consumers spent \$1.3 billion for online content in 2002; this represents an increase of 95% over calendar year 2001
- ◆ While Q4 2002 showed the first quarter-over-quarter decline in online paid content revenue, there is no clear indication that the adoption cycle is necessarily coming to an end
- ◆ The 48.5% year-over-year growth rate for Q4 2002 still outpaces the overall eCommerce growth rate of 23%¹ for the same time period

Proportion of spending on top three categories is higher in 2002

- ◆ The top three categories – Personals/Dating, Business/Investment Content and Entertainment/Lifestyles – account for 63% of online content spending in 2002, slightly higher than the 59% spent on those categories in 2001
- ◆ The Personals/Dating category surpassed Business/Investment Content and Entertainment/Lifestyles to become the largest paid content category in 2002
- ◆ Consistent with behavior of a maturing market, individual category growth rates have attenuated, with only two categories – Greeting Cards and Personals/Dating – showing over 100% year-over-year growth

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

- ◆ Annual subscriptions continue to be the dominant pricing model, accounting for 41% of online content sales this year, compared to 42% of last year's content sales
- ◆ Retention sales remain high, with 72% 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 17.8%, up only slightly from the 2001 free trial conversion rate of 17.4%

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

- ◆ 14.3 million U.S. consumers paid for online content in Q4 2002, up by 4.3 million from the number who paid for content in Q4 2001
- ◆ The year-over-year growth in consumer acceptance of online paid content is 42.8%, from 7.6% of the U.S. Internet population in Q4 2001 to 10.3% of the U.S. Internet population in Q4 2002

Spending on online content per consumer holds constant

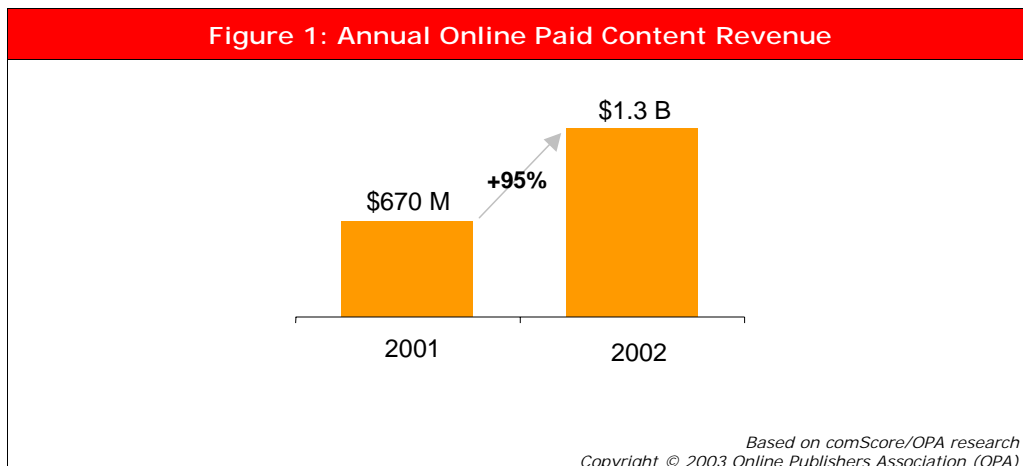
- ◆ Growth rates in paid content revenue are attributable to additional consumers and not additional dollars per consumer
- ◆ The average spending per customer increased only 4% from Q4 2001 to Q4 2002
- ◆ The average price for annual subscriptions online was \$48.94 in 2002
- ◆ The average price for monthly subscriptions online was \$10.32 in 2002
- ◆ The average price for single content items purchased online was \$22.64 in 2002

¹ Excludes auctions and travel.

RESEARCH DETAILS

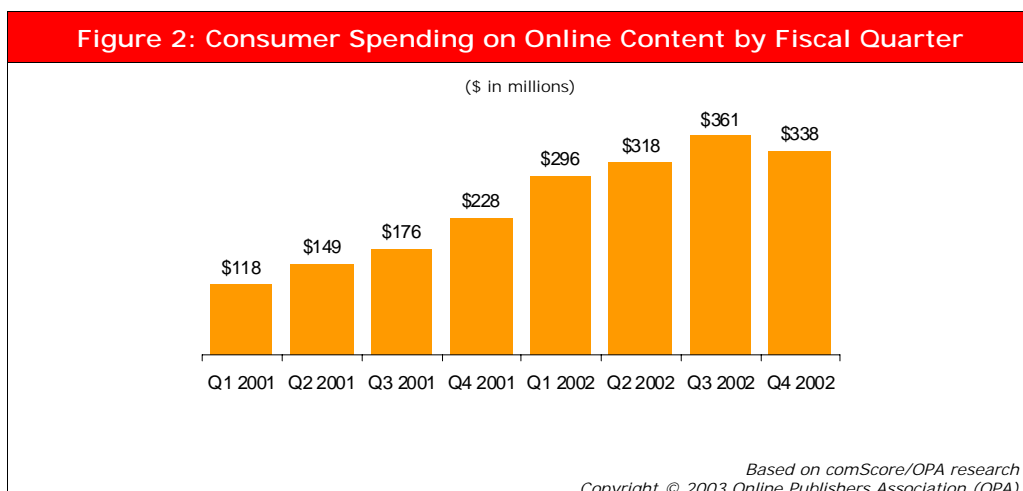
Online paid content market continues to grow

U.S. consumers spent \$1.3 billion for online content in 2002; this represents an increase of 95% compared to calendar year 2001 and is comparable to the previous year's overall growth of 92%.



Revenue dip in Q4 2002 breaks six-quarter trend

Q4 2002 shows the first break in the upward quarterly trend in online paid content spending, which at first blush seems to indicate that the adoption cycle driving twofold year-over-year growth may be coming to an end.



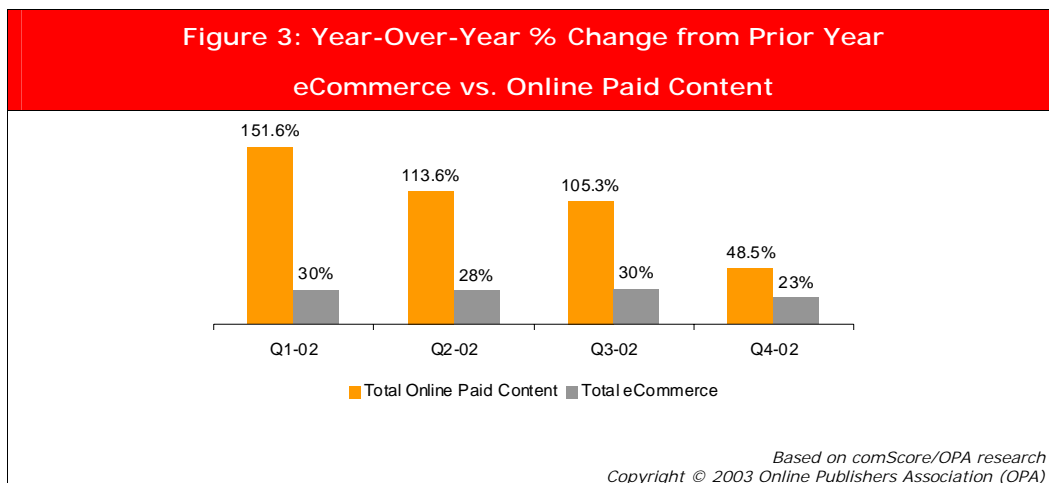
However, comparisons to total eCommerce growth rates for the same time periods indicate that this decline into Q4 may be attributed to economic factors that are affecting online commerce as a whole. The drop in Q4 2002 paid online content spending may also be partially accounted for by seasonality and changes in Internet spending allocation by

consumers, which may have been masked by extremely high growth rates in holiday season 2001.

Slow holiday season is a contributor to slow Q4 revenue in all types of eCommerce

Viewed in the context of overall eCommerce activity, we see that although year-over-year growth in online paid content is indeed slowing, it is still outpacing the growth of total eCommerce (excluding auctions and travel).

We may start to see convergence, or at least similarities in tracking, in the coming years, but since consumer adoption rates are steady and publishers are still innovating with respect to premium offerings, it is possible that paid content will continue to outpace eCommerce growth for quite some time.



Consumer acquisition still in play

With paid content consumer penetration approaching 11% at the end of 2002, this rate of adoption is still 2-3 times lower than overall e-Commerce penetration rates, as quantified by the percentage of online visitors who make any type of online purchase in a quarter.

Figure 4: Consumer Penetration/Conversion Rates

	eCommerce Total	Online Paid Content
Q1 2002	26.2%	9.2%
Q2 2002	25.6%	9.4%
Q3 2002	25.3%	10.7%
Q4 2002	29.2%	10.3%

Based on comScore/OPA research
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This indicates that there is still room to acquire many new paid content consumers who are already past one of the major initial barriers to online eCommerce: making transactions online.

Growth of Personals/Dating outpaces other categories to make it the largest paid category in 2002

U.S. consumers spent \$302 million on Personals/Dating content in 2002, up almost threefold from the \$72 million spent in the category in 2001.

The top three categories – Personals/Dating, Business/Investment Content and Entertainment/Lifestyles – together made up 63% of all consumer spending for online content in 2002. This is up from 59% in 2001.

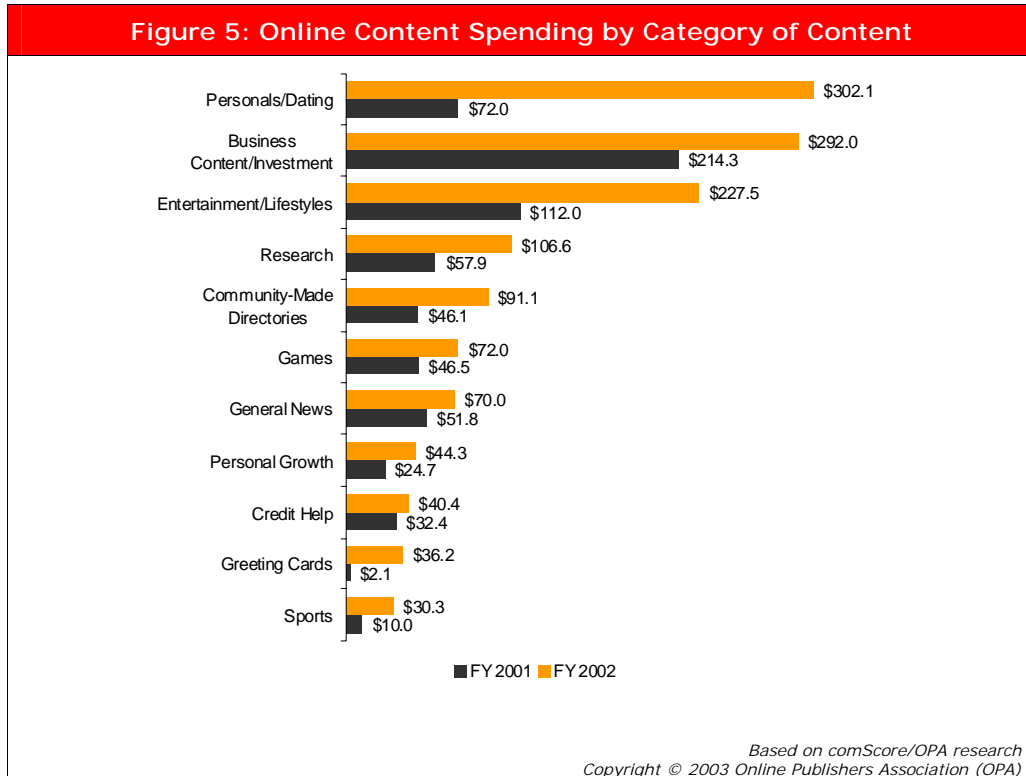
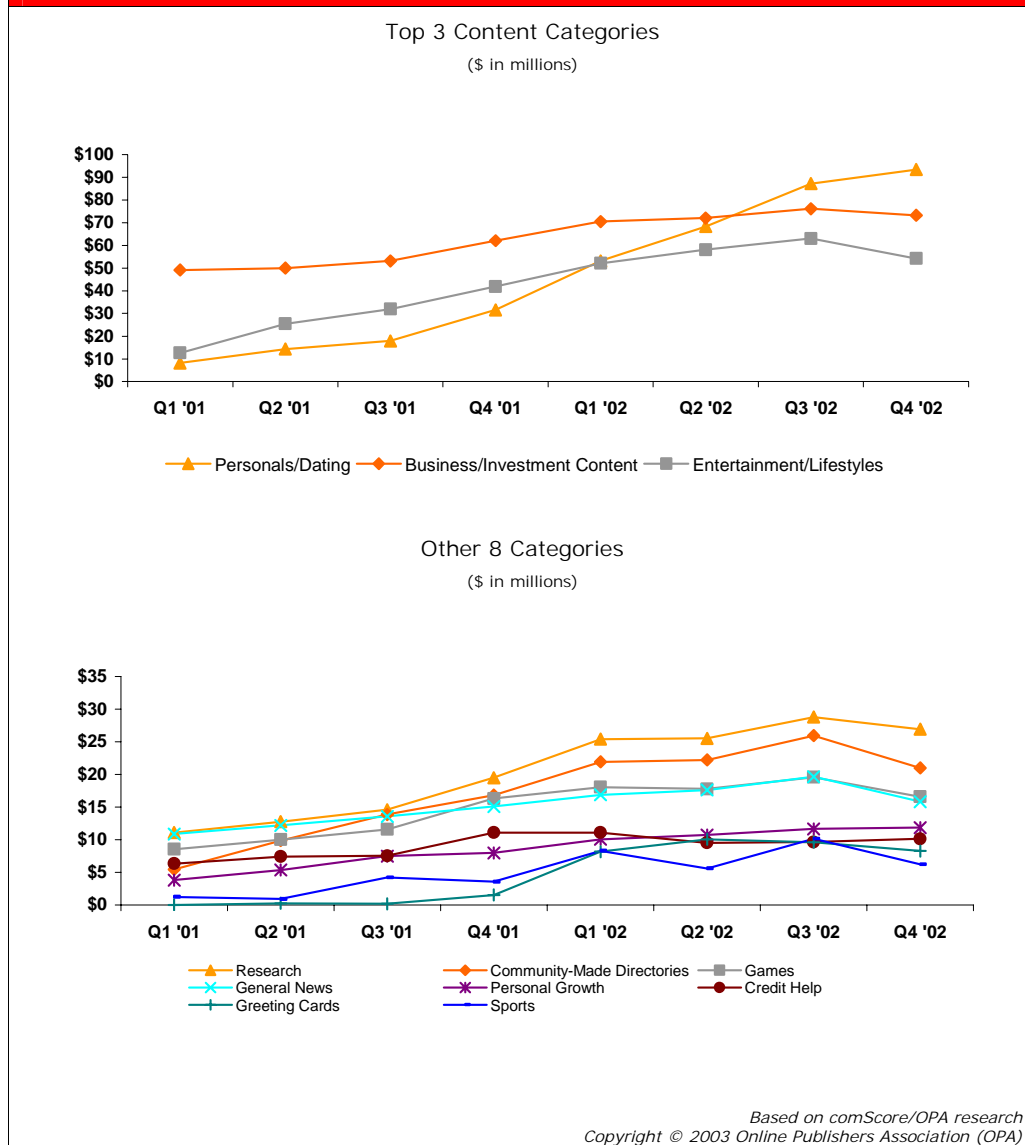


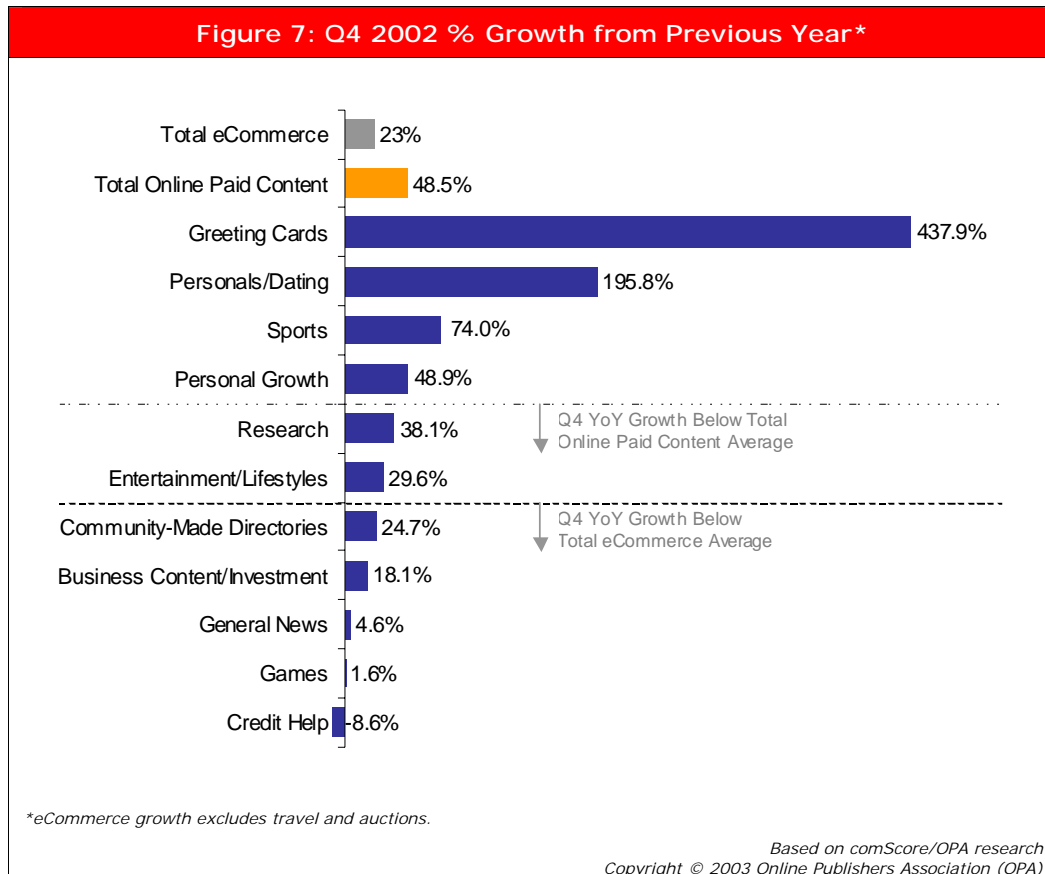
Figure 6: Online Content Spending by Category of Content



A definition of each category is provided in Appendix B.

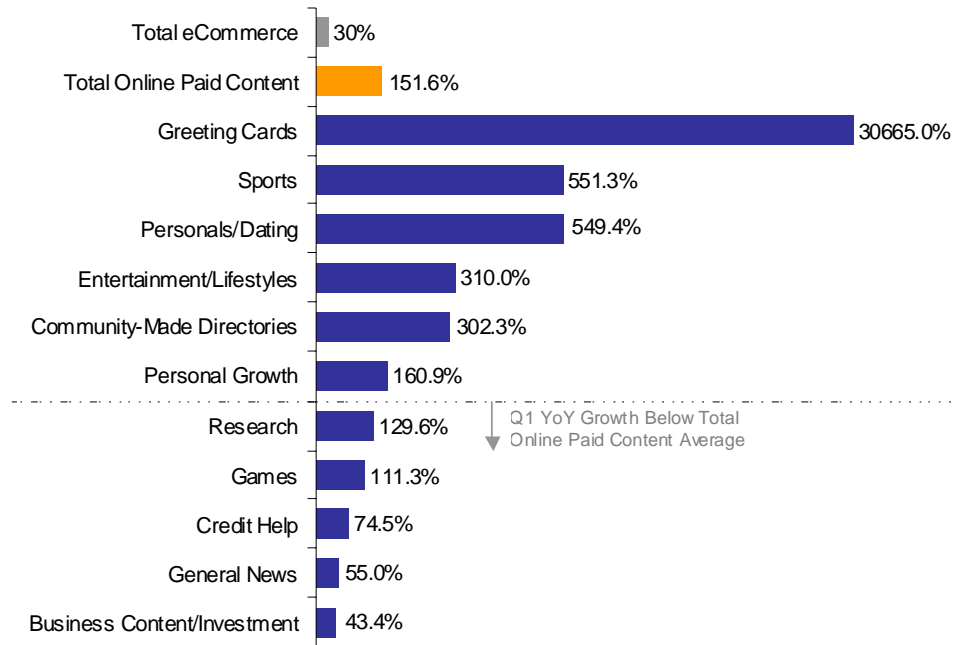
Greeting Cards, Personals/Dating and Sports drive overall growth

By the end of 2002, we see that only three categories – Greeting Cards, Personals/Dating and Sports – are driving the continuous overall growth rate for online paid content, with one category, Personal Growth, hovering right around the average.



This is a sharp contrast to the first quarter of 2002, when growth was more evenly allocated among the categories, and all categories exceeded the year-over-year growth rate for overall eCommerce.

Figure 8: Q1 2002 % Growth from Previous Year*



*eCommerce growth excludes travel and auctions.

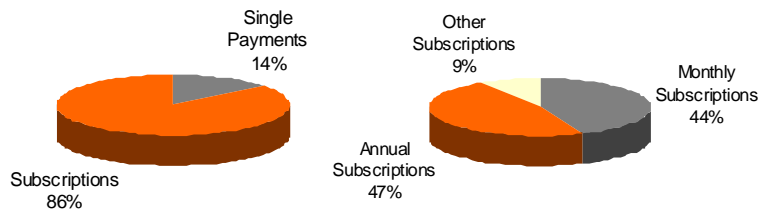
Based on comScore/OPA research
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Subscriptions continue to be the dominant pricing model for online content sales

Overall, subscriptions continue to be the dominant pricing model, particularly annual subscriptions.

Fourteen percent of revenue came from single purchase transactions, 5% of which was made up of micropayments of less than \$5.

Figure 9: Proportion of 2002 Content Spending by Pricing Model



Based on comScore/OPA research
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Games and Research are the two holdout categories that still attribute the majority of their paid content dollars to single purchases rather than subscriptions.

Figure 10: Proportion of Single Purchase to Subscription Sales by Content Category (% of total paid content dollars) FY 2002

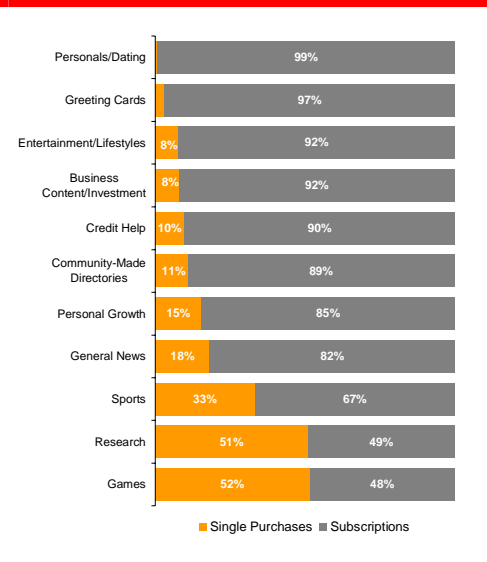
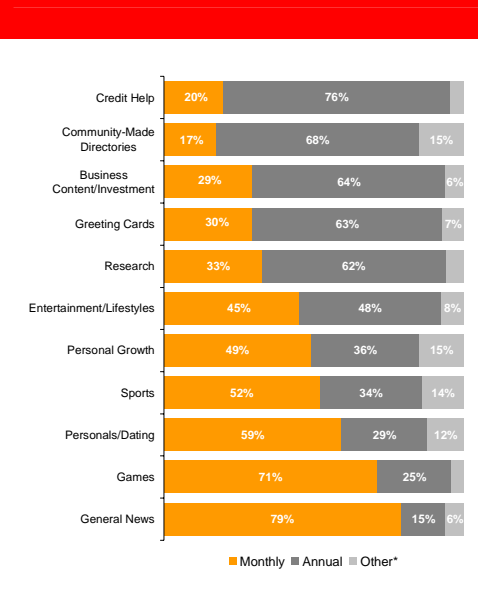


Figure 11: Types of Subscriptions by Content Category (% of subscription dollars) FY 2002



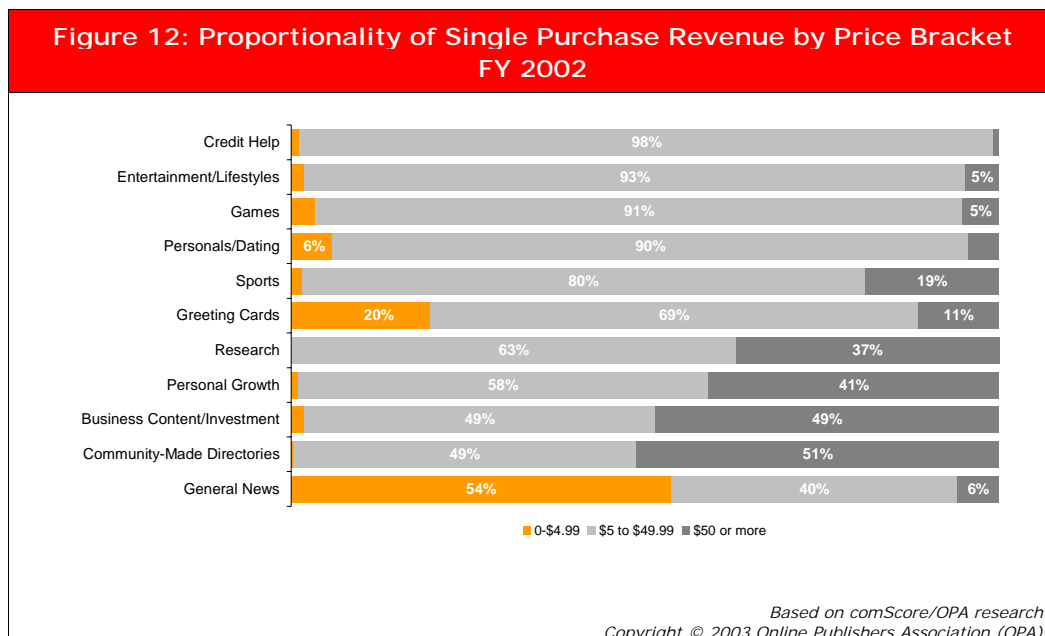
* "Other" includes weekly, biweekly, quarterly, semi-annually and other non-standard subscription terms.

Based on comScore/OPA research
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Most consumer dollars are spent on annual subscriptions, though within certain content categories – notably Games and General News – the monthly model is still extremely strong.

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.

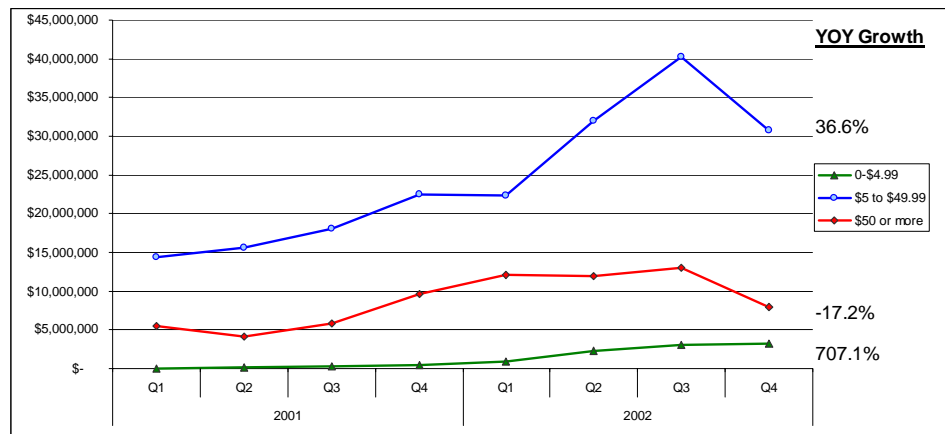


While micropayments grew 707% year-over-year, they still represented less than 1% of sales, generating only 9.6 million dollars in revenue, primarily in the General News category.

Single purchases of content priced at \$50 or more declined in Q4, with a growth rate of -17.2%

The average price for single purchase content transactions was \$22.64 in 2002, up 27% from the 2001 average.

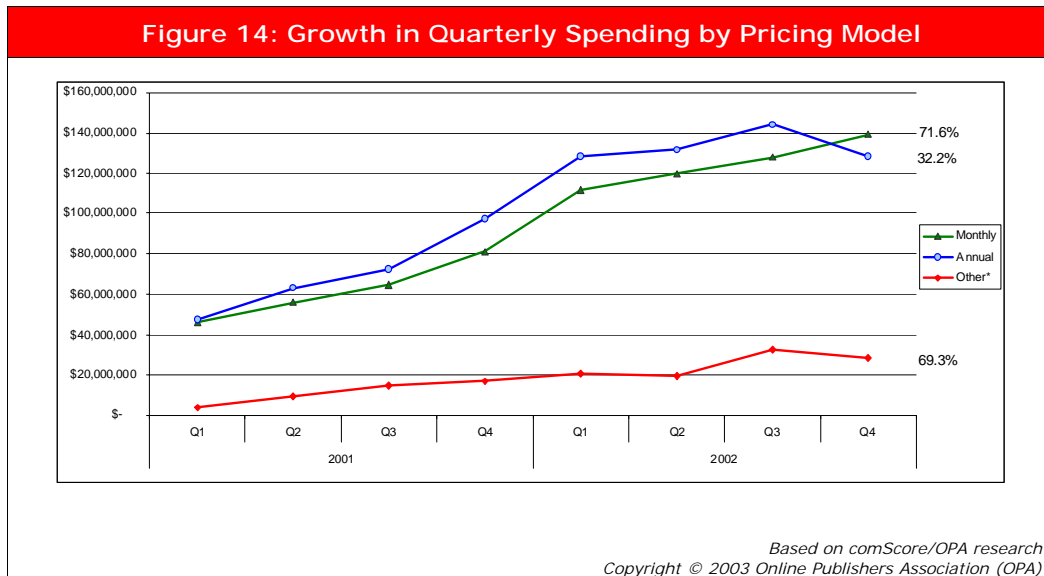
Figure 13: Growth in Quarterly Spending by Single Purchase Price Bracket



Based on comScore/OPA research
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Monthly and annual subscriptions continue to grow rapidly, although annual subscriptions seem to take the biggest hit in Q4 2002. This is not surprising since one would intuitively expect products with higher price points to be most sensitive to an overall decrease in consumer spending online, whether in paid content or any other type of eCommerce.

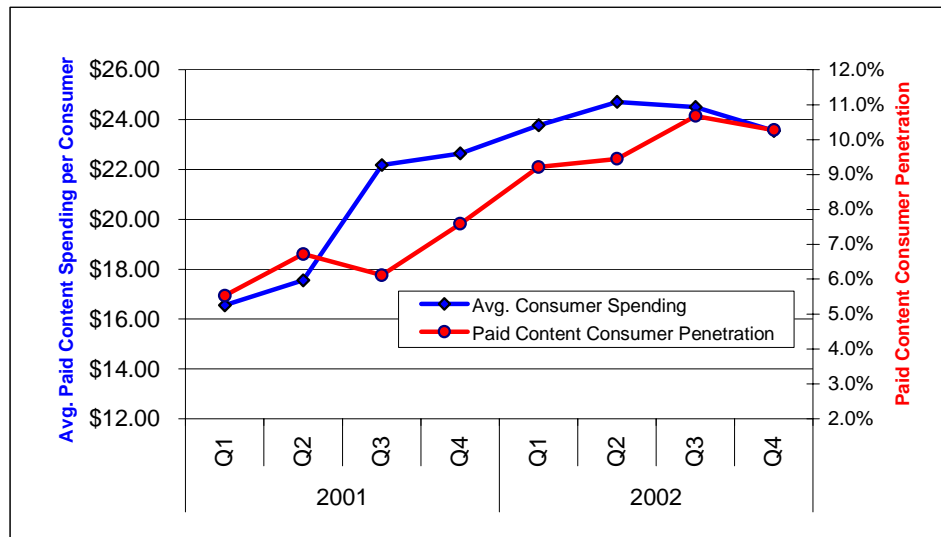
The rapid rate of growth of the “other” category may be driven primarily by the Personals/Dating category, which, in keeping with the nature of the category, is more likely to experiment with product offerings with subscription periods longer than a month, but shorter than a full year.



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

Online paid content consumer penetration reached 10.7% in Q3 2002, and declined, only slightly, to 10.3% in Q4. Even with this slight decline, penetration had year-over-year growth of 35.5% in Q4.

Figure 15: Paid Content Consumer Growth and Average Spending



Based on comScore/OPA research
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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 through 2002, 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 6 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 and 2002:

Figure 16: Average Subscription Price by Pricing Model		
	FY 2001	FY 2002
Average Annual Subscription Amount	\$49.69	\$48.94
Average Monthly Subscription Amount	\$8.46	\$10.32
Average Single Payment Amount	\$17.89	\$22.64

*Based on comScore/OPA research
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Top 25 Site Rankings

Figure 17: Top 25 Web Destinations Ranked by 2002 Consumer Content Revenue	Figure 18: Top 25 Web Destinations Ranked by 2001 Consumer Content Revenue
<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 	<ol style="list-style-type: none"> 1. real.com 2. wsj.com 3. match.com 4. yahoo.com 5. consumerreports.org 6. ancestry.com 7. weightwatchers.com 8. 1800ussearch.com 9. matchmaker.com 10. consumerinfo.com 11. ieee.org 12. classmates.com 13. playboy.com 14. thestreet.com 15. msn.com 16. kiss.com 17. espn.go.com 18. carfax.com 19. hallmark.com 20. bluemountain.com 21. arttoday.com 22. britannica.com 23. elibrary.com 24. changewave.com 25. smartmoney.com

*Based on comScore/OPA research
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SELECTED CATEGORY ANALYSIS

Personals/Dating sites are the standout for 2002

Personals/Dating surpassed the Business/Investment and Entertainment/Lifestyles categories to be the largest paid content category in 2002. As in 2001, the Business/Investment Content, Entertainment/Lifestyles and Personals/Dating categories led all categories during the year, collectively accounting for 63% of all paid content revenue.

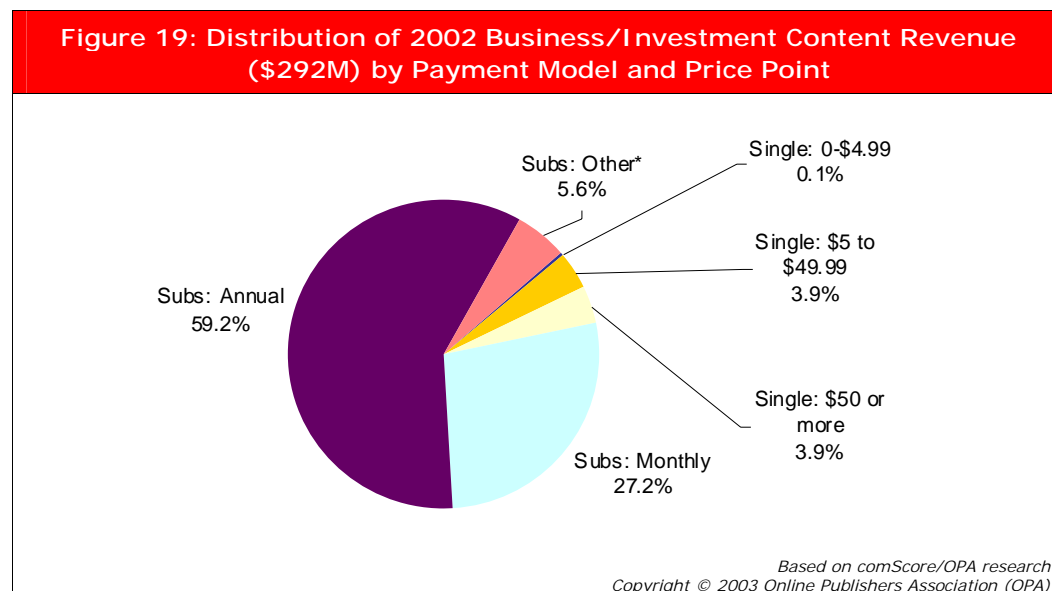
The Personals/Dating category was also one of only three paid content categories that bucked the quarterly trend and demonstrated growth into the fourth quarter of 2002.

The dominance of this category may be fueled by the increased marketing efforts of online dating services aimed at the mainstream online population.

Business/Investment Content: A maturing market

While it remains one of the largest categories in terms of dollar share, as one of the most mature categories for online paid content, it is not surprising that the Business/Investment category shows the lowest year-over-year growth among all the paid content categories.

Intuitively, one would expect consumers of this type of content to skew towards early adopters who are not only technology-savvy, but who also place a high value on the timeliness of actionable information. Furthermore, consumers of business and investment content may not be as price sensitive as others and therefore willing to pay more for subscriptions to these premium services.



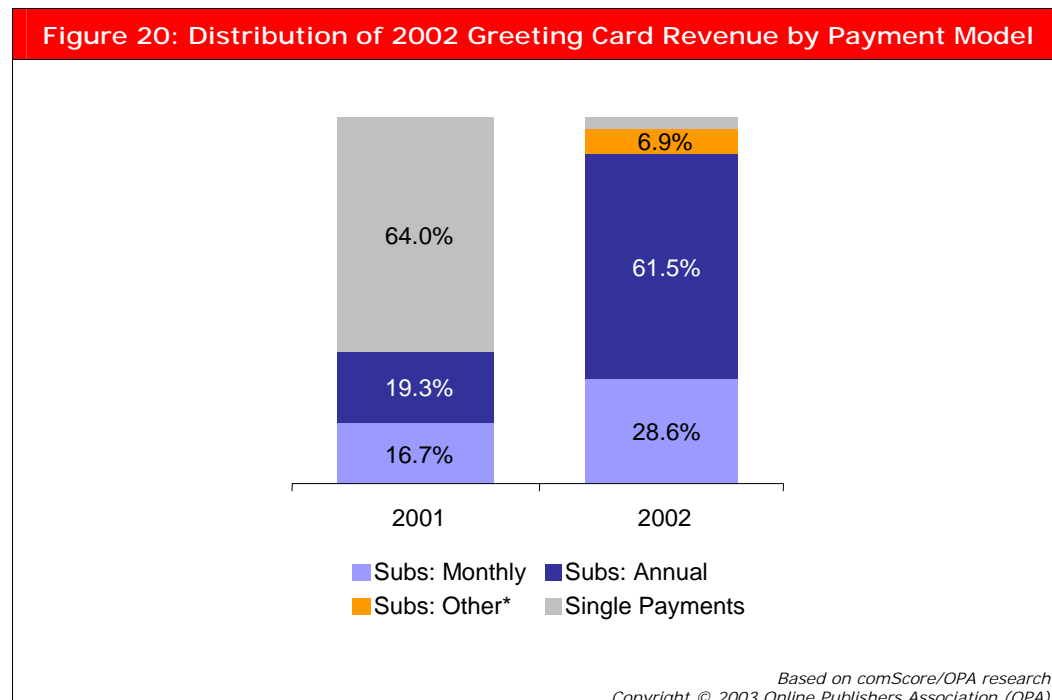
Entertainment/Lifestyles

With a much more sober year-over-year growth rate in Q4 than in Q1 (30% vs. 310%, respectively), the Entertainment/Lifestyles category is another category that is relatively mature. This might indicate that major entrants such as Yahoo! are coming into a content market where they are more likely to steal share than to take part in overall category growth driven by adoption. However, broadband growth will likely spur wider product deployment in this area, so long term growth trends would not be surprising.

Online Greeting Cards: Poster Child for Free to Paid

As a category that has been converting from free to paid over the course of the past two years, the Greeting Card category's consistently high rate of growth can well be attributed to the low baseline from which it started, as well as the low barriers to entry in this category: low price points, minimal additional technology requirements (if any) and a high convenience factor. In addition, greeting cards are a product with which consumers are already familiar.

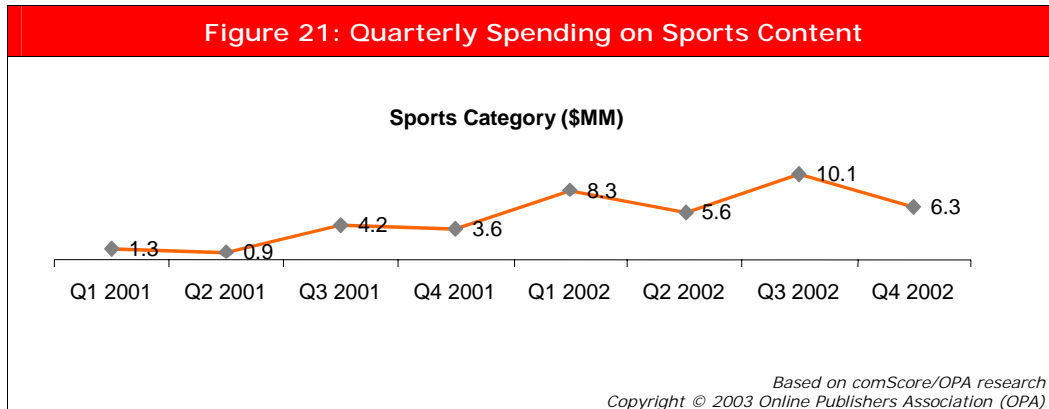
The change in the distribution of payment method from 2001 to 2002 also highlights a key factor in driving revenue up for these types of sites. Annual subscriptions with higher price points now account for the majority of dollars spent in this category, in sharp contrast to FY 2001, when they accounted for less than a fifth of online Greeting Card dollars.



Despite its high growth rates, however, the category's estimated revenue of \$35 million in FY 2002 is still modest compared to leading categories.

Seasonality primarily observed in Fantasy Sports

The Sports category, comprised primarily of sports fantasy games, demonstrates the clearest seasonal trend among the individual online paid content categories. Even with subscription revenue allocated throughout the life of the subscription, the variances in online paid content revenue in each quarter clearly track with general fantasy sports season trends (i.e. baseball and basketball in Q1 and football and hockey in Q3).



CONCLUSIONS

- ◆ The slight dip in Q4 quarterly revenue is primarily a reflection of the state of the general economy, rather than a slowdown in the paid online content market; paid content growth, though slowing, is still outpacing 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 1.1 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 54 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 54 *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.

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: 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.