



ONLINE PAID CONTENT U.S. MARKET SPENDING REPORT

This report covers Full Year 2001, plus First Quarter 2002

August 2002

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INTRODUCTION

The question of whether or not consumers will pay for online content has been debated since the debut of the World Wide Web in 1994. Charging for content has always been controversial. While there have been high-profile successes, such as the Wall Street Journal Online, and high profile defections, such as Slate's transition from paid to free, there has never been consistently reliable information about the size and characteristics of the market for paid online content. Until now.

The Online Publishers Association (OPA), the leading industry trade organization for online content providers, has contracted with the research firm comScore Networks to provide regular reports on the market for paid online content. This first report, covering the full year of 2001 and the first quarter of 2002, shows that this market is experiencing a period of spectacular growth: U.S. consumer spending for online content in Q1 2002 was \$300 million, an increase of 155% over Q1 2001.

All mass media businesses, with the exception of broadcast television, rely on a mixture of advertising and subscription revenues to fund their operations. In newspaper publishing, for example, the ratio of advertising to circulation revenue is roughly 3 to 1. Based on the IAB estimate of \$7.2 billion in 2001 online ad spending, and the OPA estimate of \$675 million in paid content revenue during that same period, the comparative ratio in online publishing is currently 11 to 1.

As such, we expect that as Internet business models mature, online publishers will add more premium paid content offerings to their products and that U.S. consumers, defying the conventional wisdom, will respond with their wallets. Our findings reveal that between Q1 2001 and Q1 2002, the number of U.S. consumers who pay for online content increased by 5.3 million to reach 12.4 million people, or roughly 9.2% of the U.S. Internet population. That's a growth in the acceptance rate for online paid content of 75%.

Appendix A of this report fully describes our research methodology, but some introductory notes are in order: we restricted our definition of "paid content" to digital intellectual property purchased through a Web browser by an individual. We excluded software downloads, pornographic sites, gambling sites, and certain other classes of sites which, in our view, skirted the bounds of decency or the law. Using their U.S. panel of more than 1 million consumers, comScore observed every secure transaction that took place during the survey period to arrive at the numbers in this report. There is no self-reported data whatsoever in our estimates. It is all based on observed purchases of content.

We hope that this first report and its ongoing installments will enliven the debate about the role of paid content in online publishing.

Michael Zimbalist
Executive Director
Online Publishers Association

EXECUTIVE SUMMARY

Consumer spending for online content is growing rapidly

- 📊 U.S. consumers spent \$675 million for online content in 2001; this represents an increase of 92% compared to calendar year 2000
- 📊 U.S. consumers spent \$300 million for online content in Q1 2002, an increase of 155% compared to Q1 2001

Spending is spread across a diverse range of categories

- 📊 The top three categories – Business Content, Entertainment and Personals/Dating – account for 59% of spending for online content
- 📊 Eight other categories – Research, General News, Games, Community Directories, Credit Help, Personal Growth, Sports and Greeting Cards – account for 41% of consumer spending
- 📊 Spending in nearly all categories experienced year-over-year growth of greater than 100%, as of the first quarter of 2002

Subscriptions are the dominant pricing model for online content sales

- 📊 Annual subscriptions accounted for 49% of paid content sales in 2001; monthly subs accounted for 31%; Single purchases accounted for 15% of content sales
- 📊 Renewal rates for annual subscriptions averaged 72%
- 📊 74% of those who subscribed for monthly payments were 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 17.4%

A growing number of U.S. consumers are paying for online content

- 📊 12.4 million U.S. consumers paid for online content in the first quarter of 2002, up by 5.3 million from the number who paid for content in Q1 of 2001
- 📊 The year over year growth in consumer acceptance is up 75%, from 5.3% of the U.S. Internet population in Q1 2001 to 9.2% of the U.S. Internet population in Q1 2002

The amount that consumers spend for online content is increasing

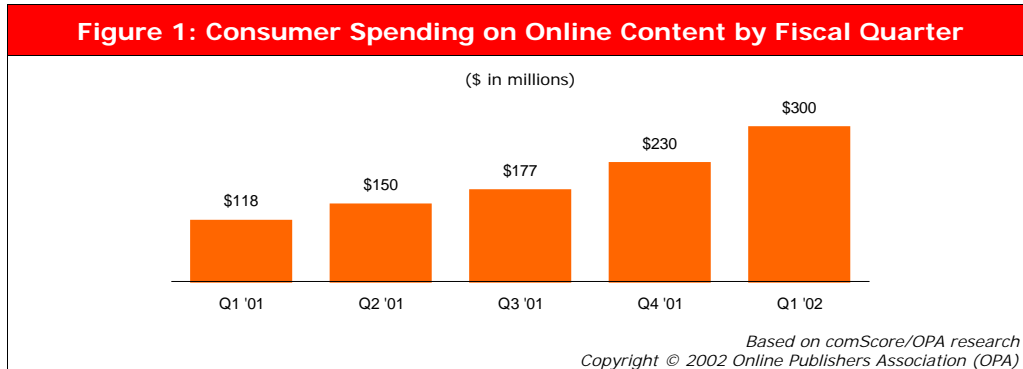
- 📊 The average spending per consumer increased 46% in Q1 2002 compared to Q1 2001
- 📊 The average price for annual subscriptions online was \$49.69 in 2001
- 📊 The average price for monthly subscriptions online was \$8.46 in 2001
- 📊 The average price for single content items purchased online was \$17.89 in 2001

Online content revenue is concentrated among 100 publishers

- 📊 1,700 sites are estimated to be charging for content online
- 📊 85% of money spent by U.S. consumers for online content goes to 50 sites
- 📊 97% of money spent by U.S. consumers for online content goes to 100 sites
- 📊 The top five sites based upon paid content revenue in 2001 were Real.com, WSJ.com, Match.com, Yahoo.com and ConsumerReports.org

RESEARCH DETAILS

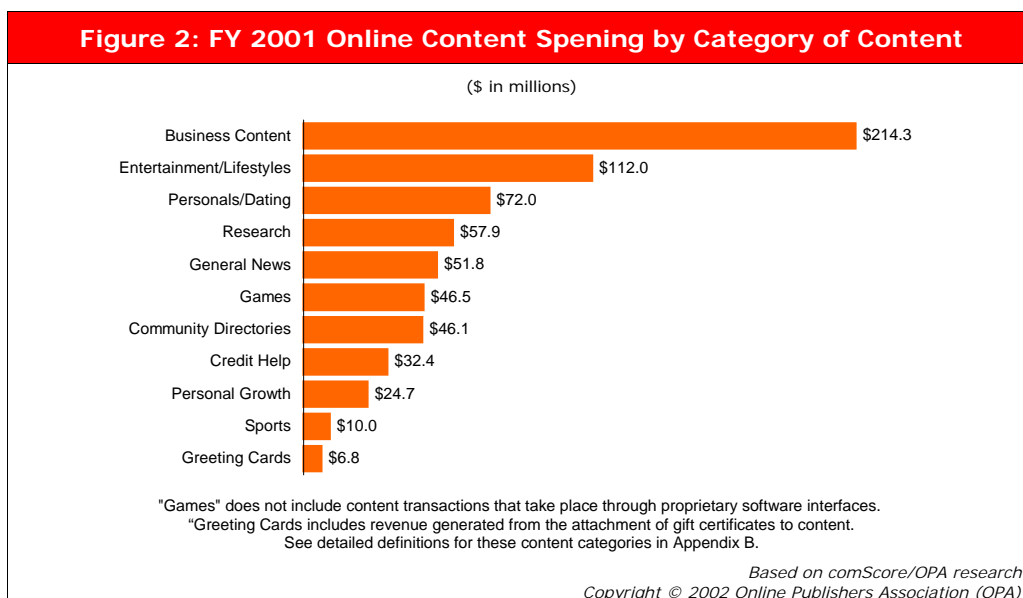
Spending for Online Content is Growing Rapidly



The total market for paid online content in 2001 was \$675 million. The estimated market size as of the end of the fourth quarter of 2000 (see methodological note in Appendix A) was \$350 million, meaning the market was growing at a 92% annual rate as of the end of 2001.

This growth rate is accelerating in 2002. The amount that U.S. Internet users spent on paid content in Q1 2002 increased by 155% compared to that of Q1 2001. With only 9.2% of U.S. Internet users presently paying for online content, there is still considerable opportunity for continued rapid growth.

Spending is Spread Across a Diverse Range of Categories

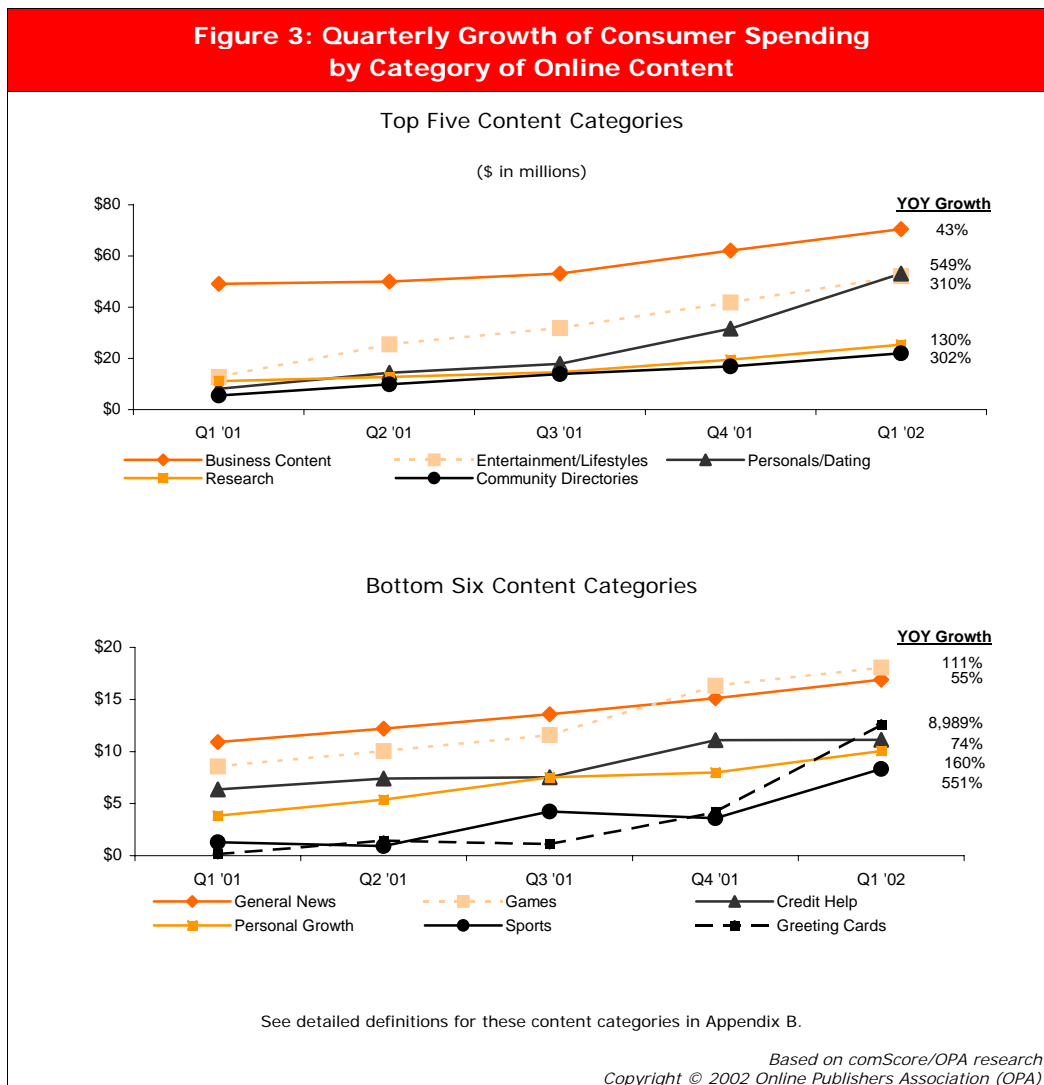


The top three categories, Business Content, Entertainment/Lifestyles and Personals/Dating, together made up 59% of all consumer spending for online content in 2001.

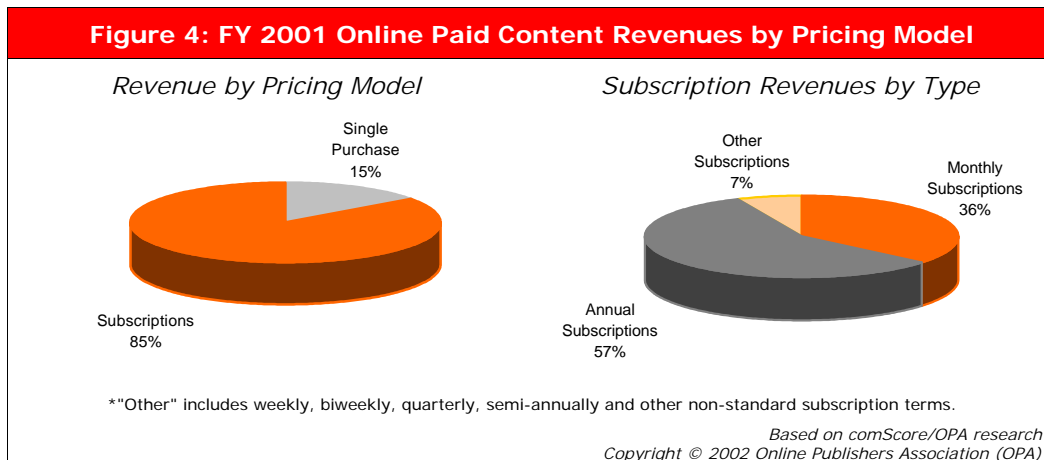
Eight other categories – Research, General News, Games, Community Directories, Credit Help, Personal Growth, Sports and Greeting Cards – account for 41% of consumer spending.

A definition of each category is provided in Appendix B.

Spending in Nearly All Categories Experienced Year-over-Year Growth Rates of Greater than 100%



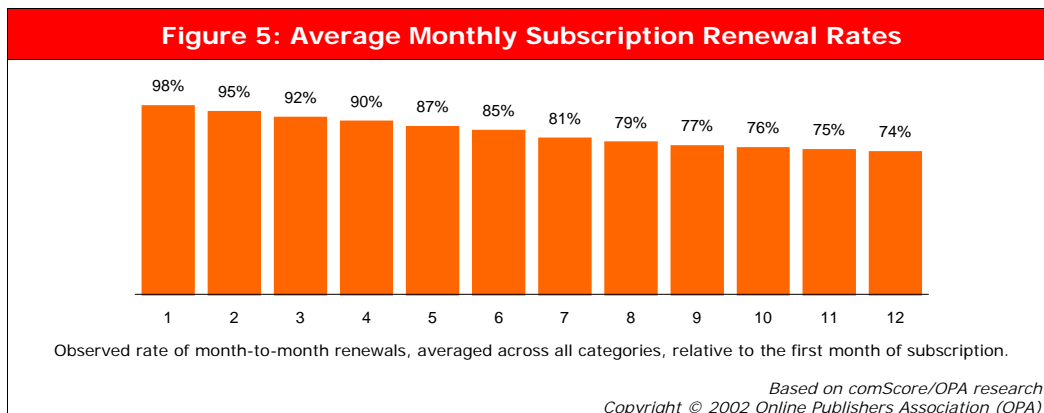
Subscriptions are the Dominant Pricing Model for Online Content Sales



Overall, subscriptions were the dominant model, particularly annual subscriptions.

15% of revenue came from single purchase transactions, less than 2% of which was made up of micropayments of under \$5.

Renewal Rates for Online Content Subscriptions are High



The observed renewal rate for annual subscriptions was 72%; the annualized renewal rate for monthly subscriptions was 74%, as shown in Figure 5.

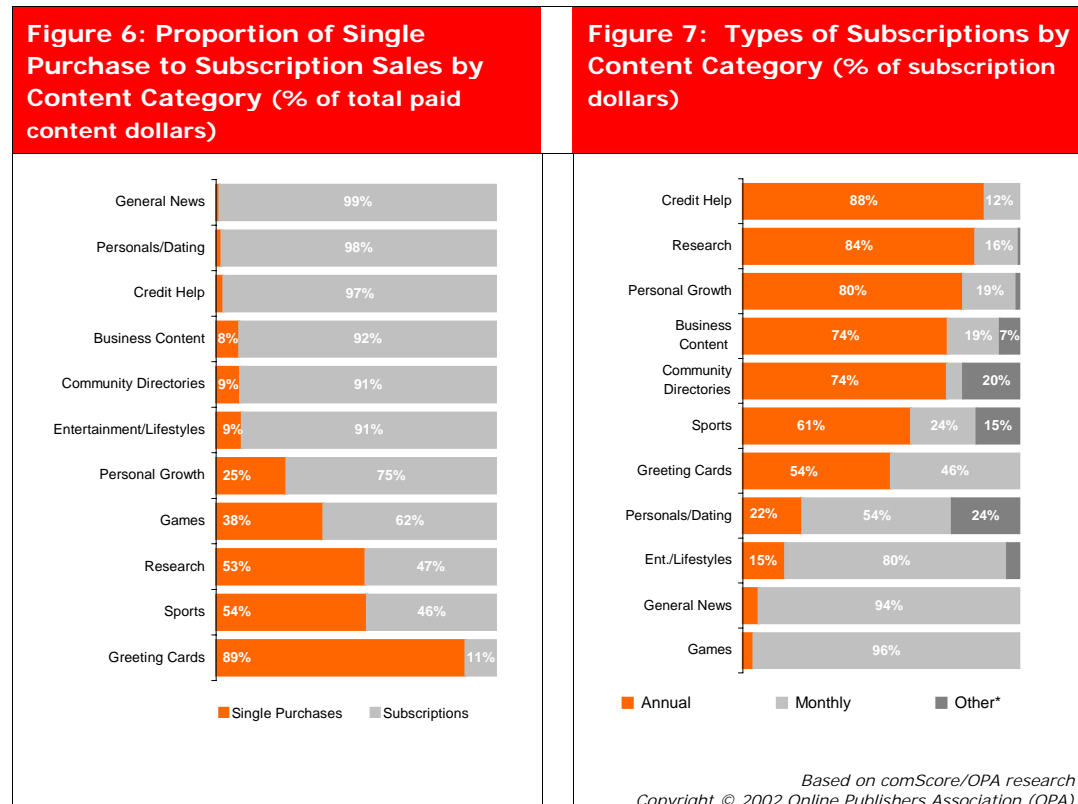
Trial Conversion Rate:

Many subscription offers solicit consumers with a free trial period. Typically, such offers require consumers to use their credit cards when signing up for the trial subscription, with the understanding that they will be billed unless they cancel before the end of the trial period.

The observed trial conversion rate was **17.4%** across all content categories, excluding "Credit Help," which saw a 6% conversion rate.

The lower conversion rate for the "Credit Help" category may be explained by the fact that these businesses typically offer a premium in the form of a free credit report as part of the free trial offer. Many consumers sign up in order to receive their free credit report and then proceed to cancel the trial before any subscription payment is required.

Annual Subscriptions are the Most Common, Though Monthly Subs and Single Purchases are Strong in Select Categories



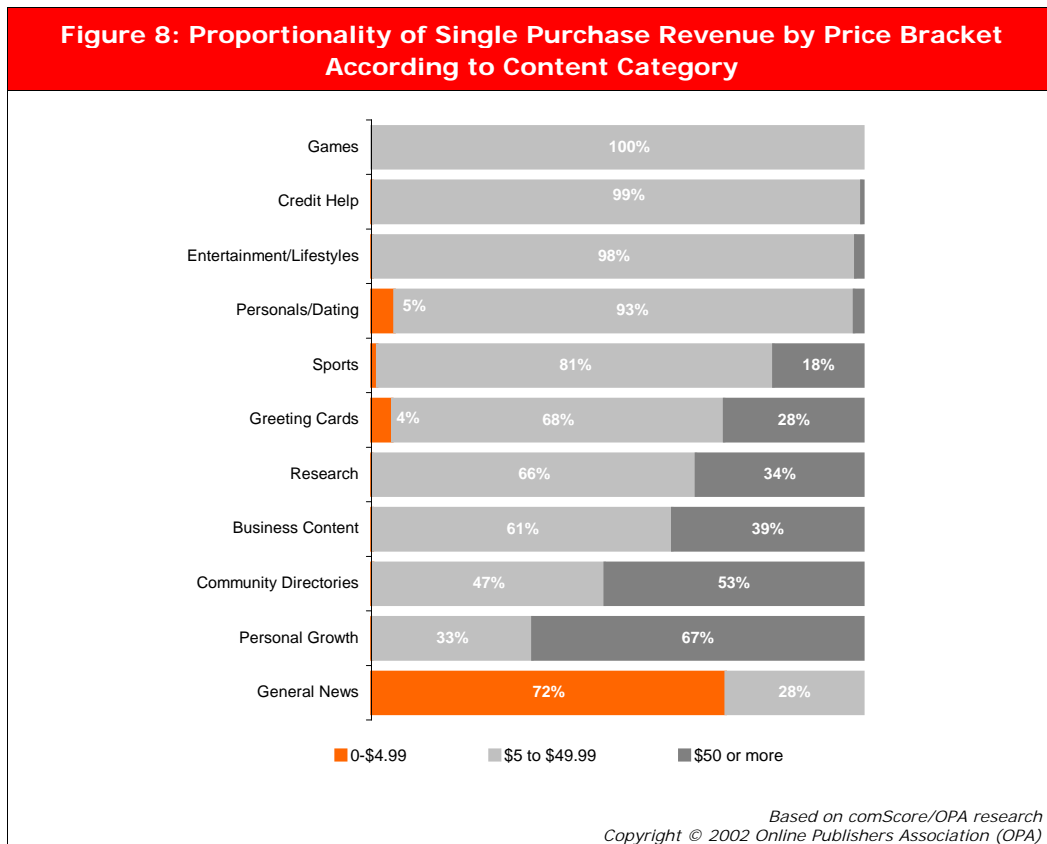
* "Other" includes weekly, biweekly, quarterly, semi-annually and other.

Most consumer dollars are spent on annual subscriptions, though within certain content categories, notably Games, General News, and Entertainment/Lifestyles, the monthly model is strong.

In select categories, notably Sports (which includes fantasy sports) and Research, the single-purchase pricing model is strong.

AmericanGreetings.com and BlueMountain.com introduced a subscription model in Q4 of 2001. That move may account for the rapid growth in this category during Q4 2001 and Q1 2002 (see Figure 3). It should also be noted that single-purchase revenue attributed to greeting cards includes revenue generated from the attachment of gift certificates to content.

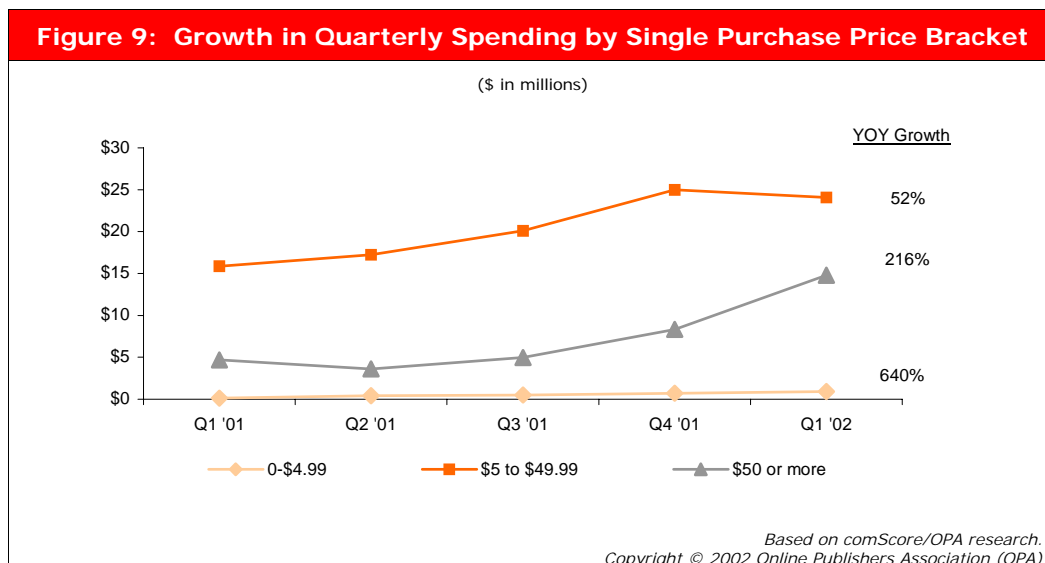
Most Content Sold on a Single Purchase Basis Falls Into the \$5-50 Price Range



Personal Growth and Community Directories had the largest proportion of sales above the \$50 price point.

So-called "micro-payments" appear to be a non-issue in today's online publishing market. The total value of 2001 content transactions of under \$5 amounted to less than \$2 million. General News is the only content category for which single purchases of \$5 or less accounted for the majority of dollars. It is important to note, however, that single purchase transactions represented only 1% of the content sales in this category (see Figure 6).

Single Purchases of Content Priced At \$50 or More Had a Year-over-Year Growth Rate of 216%



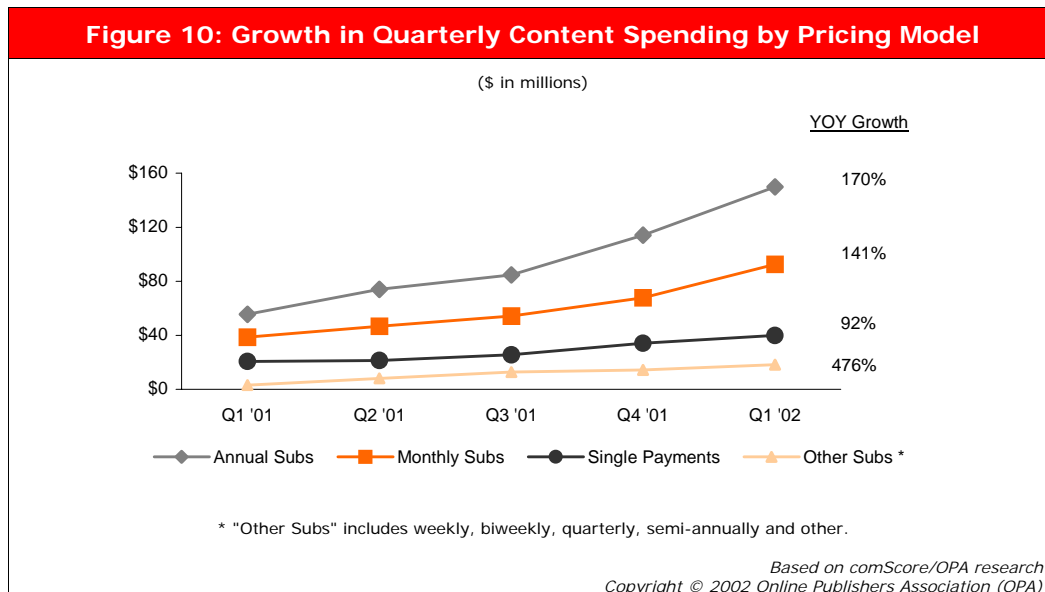
The average price for single purchase content transactions was \$17.89 in 2001.

Single purchase content sales in the \$5-\$49.99 price range experienced a year over year growth rate of 52%.

Single purchase content sales in the top price bracket, \$50 or more, more than tripled, growing from \$4.7 million in Q1 2001 to \$14.8 million in Q1 2002.

Single purchase sales under \$5 grew at more than 600% year to year, although total sales in this price range in Q1 2002 totaled less than \$1 million industry-wide.

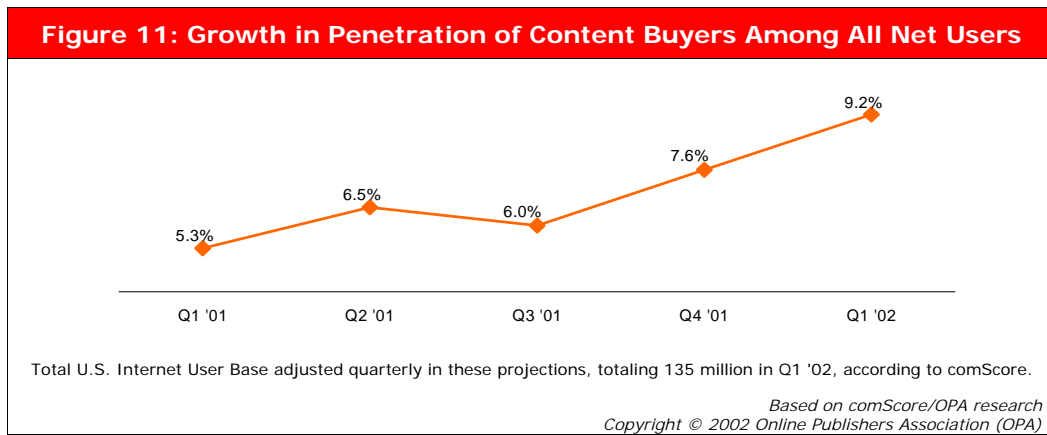
All Types of Pricing Models Experience Rapid Growth



All pricing models for paid online content experienced rapid growth in the five measured quarters, suggesting that there is still room for publishers to experiment with pricing models.

As further indication that the environment is conducive to experimentation, the "Other" category of subscriptions made up of weekly, bi-weekly, quarterly and other non-standard subscription terms experienced the greatest year-over-year growth rate, though it began from a very low base in Q1 2001.

A Growing Number of U.S. Consumers Are Paying for Online Content

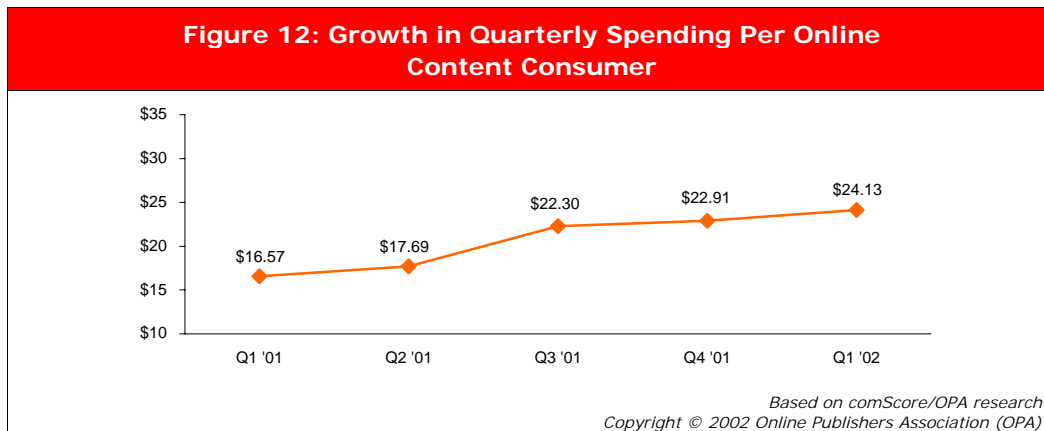


The share of all U.S. Internet users who bought online content rose from 5.3% in Q1 2001 to 9.2% in Q1 2002, a growth rate of 75%. The fact that less than 10% of the total U.S. online population is currently paying for content underscores the growth potential for content sales to consumers.

The number of consumers paying for content during Q1 2002 is estimated to be 12.4 million. Between Q1 2001 and Q1 2002, the number of U.S. consumers who pay for online content increased by 5.3 million.





In newspaper publishing, the ratio of advertising to circulation revenue is roughly 3 to 1. Based on the IAB estimate of \$7.2 billion in 2001 online ad spending and the OPA estimate of \$675 million in paid content revenue during that same period, the comparative ratio in online publishing is 11 to 1. This again suggests that content sales would be expected to become an increasingly significant portion of the revenue mix for online publishers.

The Amount that Consumers Spend for Online Content is Increasing



The year-over-year growth rate for the amount individual consumers paid for online content grew 46% from Q1 2001 to Q1 2002 to an average of \$24.13 for the quarter.




The following chart summarizes the average amount paid by individual consumers for online content in each of the 4 prevailing pricing models during the year 2001:

 Average monthly subscription price	\$8.46
 Average monthly subscription annualized	\$101.52
 Average annual subscription price	\$49.69
 Average price for single content item purchase	\$17.89

Top 25 Sites Ranked by Paid Content Revenue

Figure 13: Top 25 Web Destinations by 2001 Consumer Content Revenue	
Domain	Content Category
1. real.com	Entertainment/Lifestyles/Games
2. wsj.com	Business Content
3. match.com	Personals/Dating
4. yahoo.com	Personals/Dating/Business Content/Sports/Research/Entertainment/Lifestyles
5. consumerreports.org	Research
6. ancestry.com	Community Directories
7. weightwatchers.com	Personal Growth
8. 1800ussearch.com	Research
9. matchmaker.com	Personals/Dating
10. consumerinfo.com	Credit Help
11. ieee.org	Business Content
12. classmates.com	Community Directories
13. playboy.com	Entertainment/Lifestyles
14. thestreet.com	Business Content
15. msn.com	Games
16. kiss.com	Personals/Dating
17. espn.go.com	Sports
18. carfax.com	Research
19. hallmark.com	Greeting Cards
20. bluemountain.com	Greeting Cards
21. arttoday.com	Business Content
22. britannica.com	Research
23. elibrary.com	Research
24. changewave.com	Business Content
25. smartmoney.com	Business Content

Based on comScore/OPA research
Copyright © 2002 Online Publishers Association (OPA)









-  1,700 sites are estimated to be charging for content online
-  85% of money spent for online content goes to 50 sites
-  97% of money spent for online content goes to 100 sites

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 52 large sites for which there is sufficient transaction activity to track reliably at a site-level. The analysis also includes observed transaction activity at a set of 43 *Tier 2* sites, which were analyzed at a category level to determine revenue contribution among mid-sized paid content vendors. All observations noted above were monitored for both Tier 1 and Tier 2 sites.

To supplement this analysis set, an analysis of visitor activity at a total of 132 known paid content sites was performed to assess the general distribution of online paid content spending within the marketplace. This set represents roughly 8% of the estimated 1,700 U.S. sites currently charging for content. In total, Tier 1 sites account for roughly 85% of revenue. Tier 2 sites account for between 10% and 12%, with the remainder accounted for by remaining sites.

All data are weighted and projected to represent the U.S. Internet online population, as determined by a weekly random-digit dial enumeration study.

The study covers five quarterly time periods, including the full year of 2001 and the first quarter of 2002. This five-quarter range provides the basis for evaluating both annual revenue during 2001 and quarterly growth from the first quarter 2001 to the first quarter 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.

The assistance of **Executive Summary Consulting, Inc.** is gratefully acknowledged.

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 specialised 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: Bankrate.com, CBS MarketWatch, CNET Networks, CondéNet, Cox Enterprises, ESPN.com, Forbes.com, Knight Ridder Digital, Le Monde Interactif, MSNBC.com, New York Times Digital, Salon Media Group, Scripps Networks, Slate, SportingNews.com, Tribune Interactive, USATODAY.com, Wall Street Journal Online, Washingtonpost.Newsweek Interactive and weather.com.