eMarketer™

The eAdvertising Report™

April 2001

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Geoff Ramsey
CEO, eMarketer
gramsey@emarketer.com

eMarketer, inc.
821 Broadway
New York, NY 10003
T: 212.677.6300
F: 212.777.1172

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Welcome to eMarketer

Dear Reader:

This market update provides a review and analysis of the market size and growth trends of the online advertising industry.

Prepared by eMarketer analyst David Halprin, along with the eMarketer research team, this report is an invaluable reference tool for tracking the online ad market. It will assist you in developing business and marketing plans, creating presentations, answering client or upper management questions and making decisions about online ventures.

The *eAdvertising Report*™ presents statistical information aggregated from a wide range of authoritative research sources to provide business, marketing and advertising agency professionals with the answers they need — fast.

Geoff Ramsey
CEO, eMarketer

Written by David Halprin

Also contributing to this report:
Mustafa Sakarya, *researcher*
Tracy Tang, *researcher*
Marius Meland, *editor*
Deborah Sroge, *editor*
Dana Hill, *production artist*
Terry King, *production artist*

A. Methodology

The methodology for all our statistical reports is founded on a simple philosophy of aggregation:

The key to approaching quantitative truth – particularly when examining the internet marketplace – is to consider data from as many reputable sources as possible. No one has all the answers. But taken together, multiple sources, coupled with healthy doses of common sense and business intelligence, create a reasonably accurate picture.

Unlike other research organizations, eMarketer does not conduct primary research. We have no testing technique to protect, no research bias and no clients to please. The eMarketer research team begins each report by examining research studies, surveys and reports from hundreds of published, publicly available sources. We then filter, organize and synthesize the information into tables, charts and graphs. Finally, we present the comparative source data along with our own analyses, estimates and projections. As a result, each set of findings reflects the collected wisdom of numerous research firms and industry analysts. The benefits to our readers are threefold:

- The information is more objective and comprehensive than that provided by any other single research source
- The information is available in one place – easy to find, evaluate and compare
- The information can be quickly accessed to make intelligent, well-informed business decisions

B. Definitions

eAdvertising refers to the use of the internet channel to achieve advertising objectives. More precisely, eMarketer defines e-advertising as the placement of electronic messages on a website or in e-mail to:

1) Generate awareness of a brand
2) Stimulate interest/preference for a product or service
3) Provide the means to contact the advertiser for information or to make a purchase

eMarketer defines e-advertising expenditures as monies from paid advertisements (including banners, sponsorships and other forms of messaging) that appear on the web or in other digital forms, including e-mail. These dollar figures are measured based on the actual amount paid/received, not the rate-card price.

Barter "dollars," because they are so difficult to quantify, are not included.

"I don't think of the web as an advertising medium. It's a marketing medium."
—Vivienne Bechtold, Director of Knowledge, Procter & Gamble

In 1996 the internet saw $0.2 billion in ad spending. Four years later the medium was at $7.1 billion. Although eMarketer forecasts that spending will rise only 7% this year to $7.6 billion, due primarily to the harsh economic winds, growth will resume in 2002 with a projected expenditure in that year of $10.3 billion. And by 2005, online ad spending will top $23 billion.

Particularly in times of market change, an historical perspective is also helpful. In 1999, the internet's 5th year of existence as an advertising medium, it generated $3.6 billion worth of spending. This is similar to the advertising paths other major media have followed. For example, $3.7 billion was spent on advertising on broadcast TV in its 5th year (1953) and $1.2 billion was spent on cable TV advertising in its 5th year (1984).

US Advertising Expenditures in 5th Year of Medium's Existence, 1953, 1984 & 1999 (in billions)

Source: Internet Advertising Bureau (IAB), 1999; eMarketer, 2001

By looking at the number of years it took each form of medium to grow from a beachhead (10% penetration) to critical mass (50% penetration), it becomes clear that the internet is comparable in its vitality to broadcast TV – arguably the world's premier communications and advertising medium.

Years Until 50% Household Penetration Was Reached in the US, by Media, 2000

Source: Industry Standard, 2000; Jupiter Research, 2000; McCann-Erickson, 2000; Veronis, Suhler & Associates, 2000; eMarketer, 2001

"The seminal point for cable was when Proctor & Gamble agreed to the 5% solution: the 5% media budget share allocation recommended by former P&G agency Ted Bates, which served as a catalyzing event for cable buys."

— Scott Schiller, senior vice president, Walt Disney Internet Group

But no sooner had the web advertising industry completed its self-congratulations than the bottom fell out.

The euphoria of 1999 ended about a year ago after the Super Bowl, when the scrutiny applied to dot-com TV ads on the biggest TV event of the year began to extend more deeply to the marketing budgets and business models of the dot-com companies. The result of this attention: a high body count and the liquidation of trillions of dollars in shareholder value. Caught among the victims were the key players in the web ad market: major portals like Yahoo!, and ad networks like DoubleClick and 24/7 Media.

In the midst of the dissolution and bankruptcy of many dot-com companies, industry observers wondered if web advertising would also stumble and fall. Was online advertising a bubble inflated primarily by the free-spending marketing strategies of dot-com firms fueled, in turn, by venture capital funding?

Then, in the third quarter of 2000, the Internet Advertising Bureau (IAB) announced the first sequential quarterly decline in the history of web advertising. It reported that third-quarter spending was $1.986 billion, down 6% compared with $2.186 billion in the second quarter. To put this event in perspective, from the beginning of 1996 when the IAB began tracking web ad spending, and for nearly five years, there had never been a sequential quarter-to-quarter decrease. In fact, the average quarter-to-quarter sequential growth over the five-year period was 25%, and the smallest previous growth from quarter to quarter was 5%.

Complicating the picture was that, despite this decline in sequential growth, web ad spending nonetheless rose 63% when compared with the same period in 1999. This set off a huge debate on what meaning to attach to this highly scrutinized quarter. The argument turned on the issue of the most relevant perspective: was the third quarter down 6% or up 63%?

"Because the initial boom was fueled by over funding from capital markets and IPO money that couldn't last, what we have now looks like a slowdown. It's actually just settling into a real business."

— Barry Salzman, president of Global Media, DoubleClick

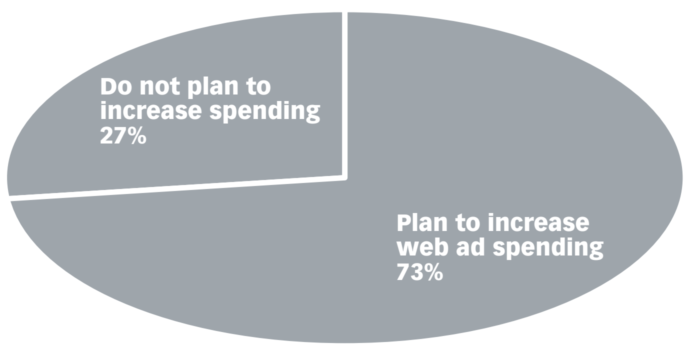
Finally, as if to beat the proverbial "dead horse," the Nasdaq Composite Index began to plunge in March 2000, leaving the online advertising market in a more precarious position than ever. Seeing the writing on the wall, analysts such as Merrill Lynch's Henry Blodget immediately began ratcheting down their estimates for growth, or rather negative growth of -25% in 2001. Soon after, Mary Meeker of Morgan Stanley chimed in with negative growth figure of -18.4%.

eMarketer's take is that these dire projections represent an overreaction to negative indicators. It's a case of the pendulum swinging too far the other way. Just as the internet bubble was characterized by "irrational exuberance" (as Alan Greenspan first coined it), the dot-com meltdown has led some to excessive panic and overly quick reactions.

eMarketer acknowledges that a significant slowdown is afoot, but the market is not likely to reverse itself. Spending will climb from $7.1 billion to $7.6 billion this year, representing an anemic (by internet standards) growth rate of 7%.

According to a year-end 2000 Jupiter Research study, 73% of advertisers intended to spend more on web advertising in 2001. Of course — with the recent downturn in the economy — those plans may well have changed.

Spending Plans of US Advertisers, 2001



Source: Jupiter Research, Q4 2000

Keep in mind that every year in the history of web advertising, despite numerous stumbles and falls, analysts and research companies have had to revise their forecasts upwards. And there are good reasons to believe this will continue. Online advertising is becoming a part of integrated marketing strategies, and large corporations in every industry sector are gradually shifting dollars from traditional media to web advertising. Consumer goods marketers, in particular, are exploring new online ad formats that could well translate to incremental shifts in ad dollars – away from television and radio – and to the web.

Underlying the continued progress of the web as an advertising medium are three fundamental and powerful economic drivers:

1) Online advertising still holds out the promise of becoming the ultimate, targeted communications vehicle

2) Technology is evolving to allow for richer advertising content through increased broadband penetration

3) It is now possible for consumers to make actual transactions through banner ads and e-mails

It is also critical to keep in mind that the web advertising market is still in an early stage of development. Advertisers are accumulating valuable experience as they stumble through numerous experiments, some more successful than others. While it is doubtful the "new and improved," larger-sized banners will be the panacea some observers expect, other creative solutions will inevitably emerge, capturing the attention of both advertisers and (hopefully) the web- browsing public.

Advertisers are increasingly integrating advertising campaigns across multiple media, investigating more sophisticated technologies to refine targeting and personalization strategies, and looking for ways to increase interactivity. They are also exploring ways to take advantage of faster bandwidth and a growing acceptance of online purchasing among consumers.

Meanwhile, the industry continues to experience plenty of growing pains. Major unresolved legal and ethical issues have emerged regarding the protection and privacy of consumer information. The very technology necessary to realize the promise of targeting and personalization is coming under scrutiny as a threat to individual privacy and security.

"Like cable TV in its early days, we're doing a lot of educating. I've been telling clients to think of it as an R&D [Research & Development] expenditure. That seems to make them a lot more comfortable."

— Drew Ianni, CEO, Atmosphere (formerly of Jupiter Research)

"The best techniques for web marketing are still being decided as standards and protocols about best practices for marketing and advertising continue to emerge."

– H. Robert Wientzen, president, Direct Marketing Association

There are many benefits to marketing online, but there are also challenges. The major barriers to online ad growth have not changed in the last year.

Seven Barriers to US eAdvertising, 2001

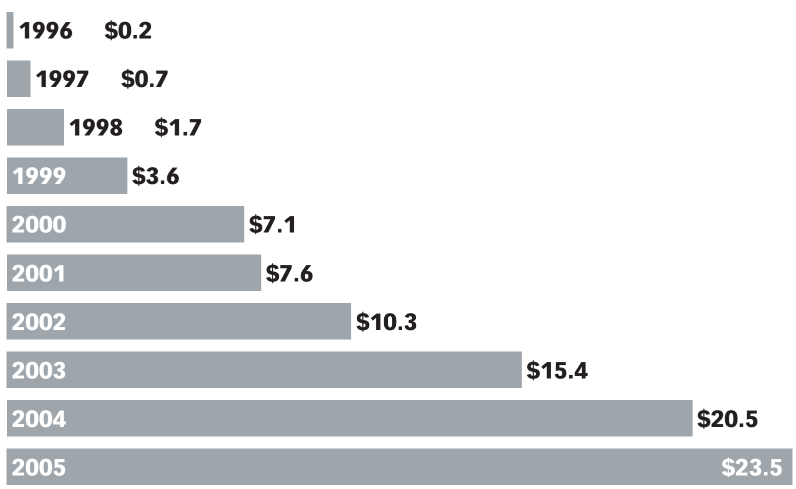
Barrier	Upside development
Not all target audiences are wired (at least not to the same degree)	The internet continues to expand, attracting new users and approaching the penetration of a "mass media"
The online audience is highly fragmented	Vertical sites are creating markets of web surfers with common interests
Branding is questionable on the web	Marketers continue to pursue branding, in part by taking advantage of the interactive nature of the internet
Bandwidth problems limit creative options	DSL, cable and convergent technologies are progressing (though more slowly than many expected)
Internet users tend to be goal-directed, so anything that gets in their way, including ads, is perceived as an intrusion	Web marketers are getting better at communicating with online consumers; users are increasingly interested in using the web for entertainment
Advertisers have not cracked the problem of integrating online and offline advertising	Advertisers are aware of the need for integration, and a few pioneers are already leading the way
Personalization technology raises issues about privacy and the use of personal information	Consumers, government authorities, marketers and other interested parties are pursuing discussions that will spell out guidelines and quell fears

Source: eMarketer, 2001

"The market turnaround in April (2000) caused internet companies, both pre- and post-IPO, to revise their business strategies. Cutbacks in marketing budgets are the first to go."
— Rich LeFurgy, chairman, Internet Advertising Bureau

From a paltry base of only $0.2 billion in 1996, the US online ad market grew to $7.1 billion in 2000. However, given the economic downturn, growth will slow considerably this year, to only 7%, resulting in a year 2001 expenditure of $7.6 billion. The good news is that, assuming the US economy gets back on course by year-end 2001, online ad spending will likewise pick up momentum and grow 36% to $10.3 billion in 2002. Further out on the horizon, web ad spending will increase to over $23 billion by 2005.

US eAdvertising Expenditures, 1996-2005 (in billions)



Source: eMarketer, 2001

eMarketer is hardly alone in its pessimism for year 2001 growth. In fact, compared with some analysts, eMarketer is downright bullish. Henry Blodget of Merrill Lynch estimated at the beginning of the year that in 2001 web ad spending would not increase, remaining flat at $8 billion dollars. In mid-March he recast his numbers, predicting a deathly decrease of 25%, down to $6 billion, for 2001. Following suit, Mary Meeker of Morgan Stanley downgraded its growth estimate from a positive 23.7% down to a negative figure of -18.4%.

Certainly the era of triple-digit growth rates has come to an end. Web advertising grew 111% in 1999, but only 97% in 2000. While the rate of growth will slow over the next several years, bottoming out at 7% in 2001, it will ease back up in 2002 to a healthy 36%. This steep ramp up in 2002 will be attributable to a reinvigorated economy coupled with pent-up advertiser demand.

Regardless of the current economic climate, the year-to-year increases seen in 1997 and 1998 were not sustainable. According to the law of diminishing returns, growth of spending will inevitably mean slower growth rates going forward. Growth in online advertising will also be affected by the following factors:

- The extent and sustained length of the economic downturn
- The emergence of solutions to critical issues involving measurement, standards and ROI (return on investment)
- The embrace (or not) of web advertising by large traditional marketing companies
- The resurgence (or not) of dot-com companies and their ability to invest web ad spending
- The evolution of technology, particularly broadband and wireless, providing advertisers with new and enhanced online advertising opportunities

In the race to build awareness, establish online brands and drive site traffic, online marketers will continue to allocate significant portions of their "internet" marketing budgets to corporate website development and offline media. For most online marketers, the customer experience of interacting with their websites – not with banner ads – will act as the primary branding mechanism, and possibly the primary response mechanism, for products and services marketed online.

Online brand building will involve customers in the experience of "experiential branding." To differentiate themselves, marketers will seek to enhance customer interaction through rich site content, customer communities, integrated multimedia campaigns and the use of interactive technologies. Customer relationship management (CRM) will become a critical success factor in the interactive age.

"In four years, the definition of what is internet advertising may change. The lines are already being blurred with deals like AOL-Time Warner."

— Greg Kyle, CEO, Pegasus Research International

A pivotal factor in the growth of online advertising will be the speed with which traditional advertisers begin diverting their media budgets to the web. If they seize the opportunity in a down market and invest more heavily in internet advertising efforts they may well reverse the ill effects of the dot-com pull-out in 2000.

A. Comparative Estimates and Recast Projections

Recast Projections

Since eMarketer's June 2000 *eAdvertising Report*, many major research firms and industry analysts have recast their advertising revenue projections, both upwards and downwards.

Given eMarketer's methodological approach, which involves aggregating, filtering and analyzing data from other market research firms, our numbers have been adjusted accordingly. We have also taken into account the recent macroeconomic and media industry developments.

Recast US eAdvertising Expenditures, 1996-2005 (in billions)

Year	Revised June 2000	Revised March 2001
1996	$0.2	$0.2
1997	$0.7	$0.7
1998	$1.7	$1.7
1999	$3.6	$3.6
2000	$6.1	$7.1
2001	$9.5	$7.6
2002	$13.5	$10.3
2003	$17.5	$15.4
2004	$21.0	$20.5
2005	–	$23.5

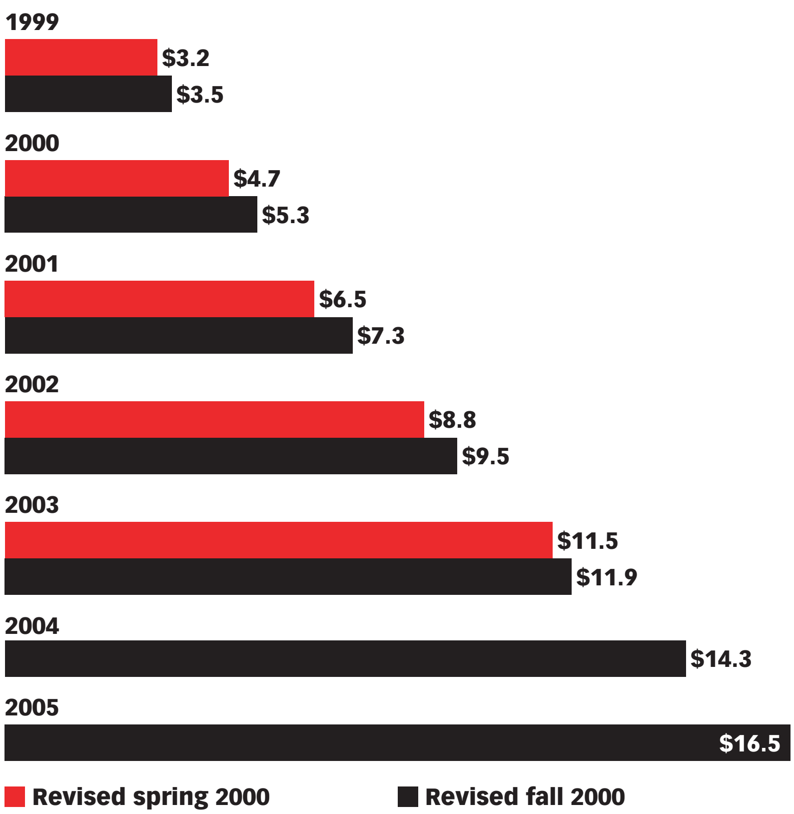
Source: eMarketer, 2001

eMarketer's web advertising figures are determined by a number of factors, including:

- A normalized and weighted analysis of estimates and projections from other research firms measuring the online ad industry (normalization techniques are used to ensure that figures are compared on an apples-to-apples basis)
- Historical and projected trend data for other major media
- A review of internet user adoption rates and related e-commerce activity
- General and media-specific economic indicators

Jupiter Research, uncharacteristically conservative when it comes to web advertising, has adjusted its numbers slightly upwards.

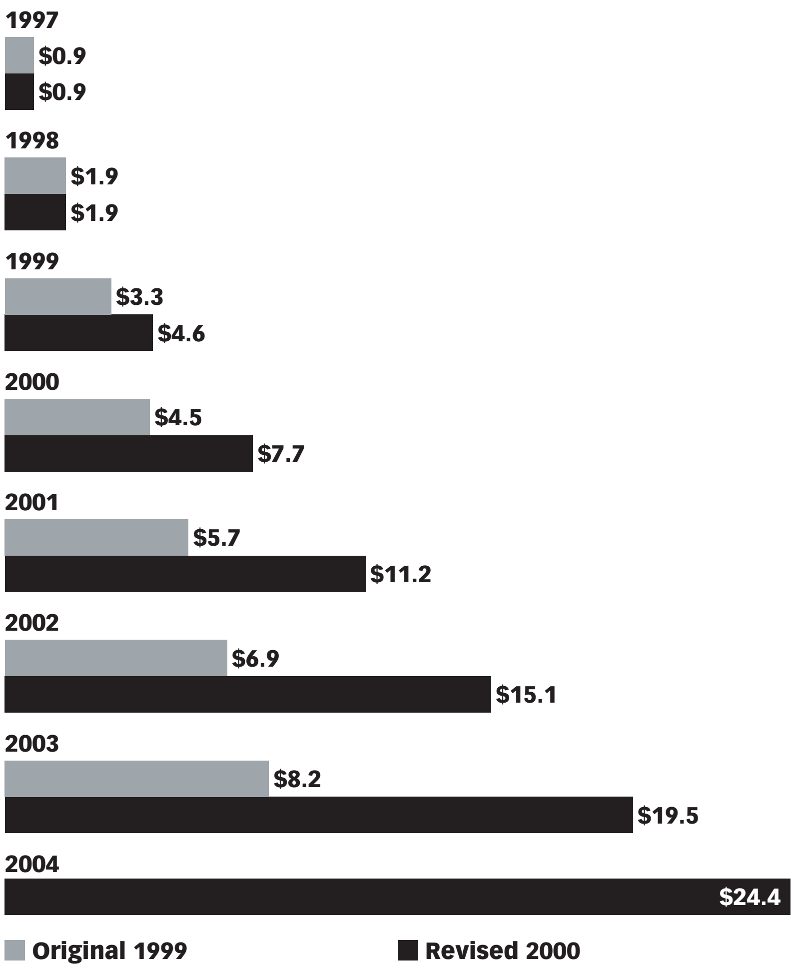
Recast US eAdvertising Expenditures, 1999-2005 (in billions)



Source: Jupiter Research, 1998-2000

Veronis, Suhler & Associates has adjusted its projections upwards by a significant amount.

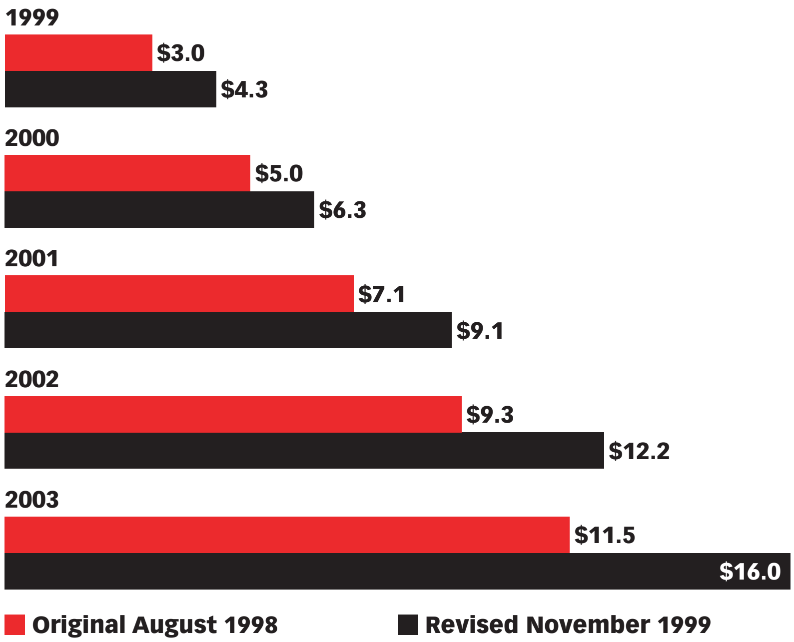
Recast US eAdvertising Expenditures, 1997-2004 (in billions)



Source: Veronis, Suhler & Associates, 1998-2000

Salomon Smith Barney tells a similar revisionist story.

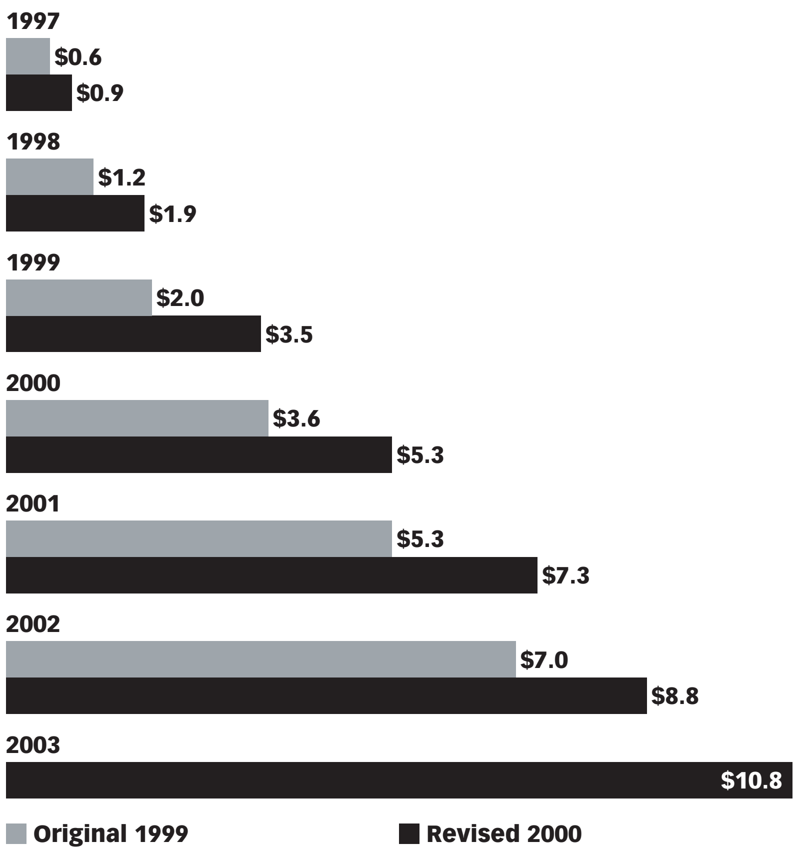
Recast US eAdvertising Expenditures, 1999-2003 (in billions)



Source: Salomon Smith Barney, 1998–1999

In keeping with the trend, International Data Corp. (IDC) has edged its figures upwards.

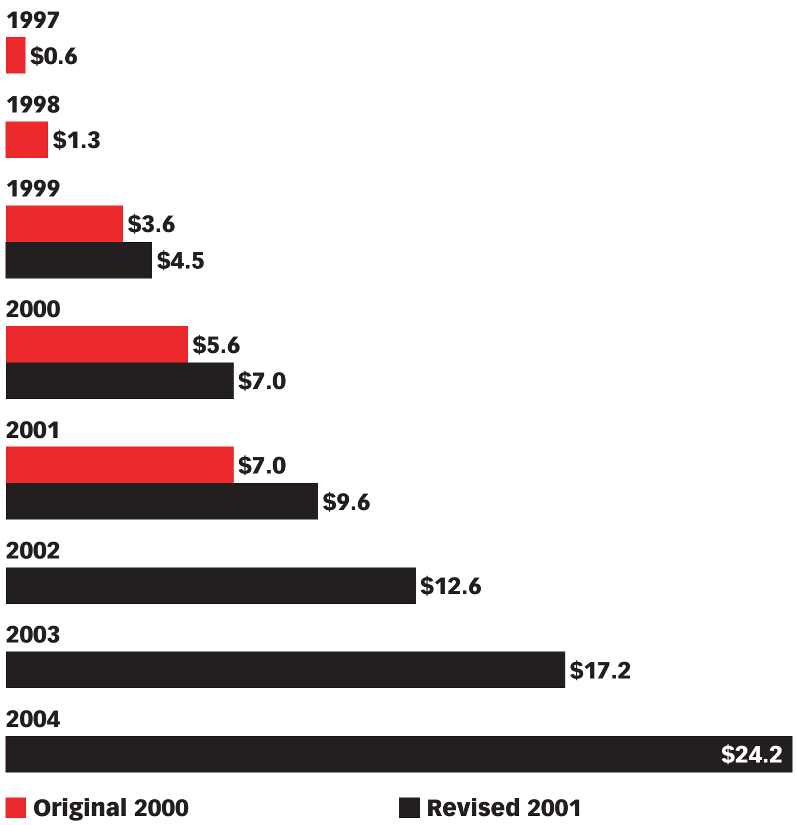
Recast US eAdvertising Expenditures, 1997-2003 (in billions)



Source: International Data Corp. (IDC), 1999–2000

Forrester Research has become more bullish about online ad spending growth.

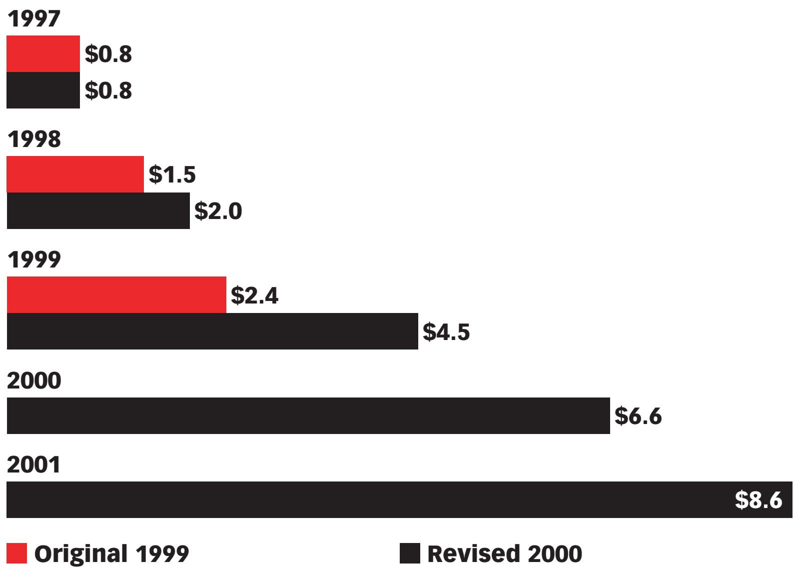
Recast US eAdvertising Expenditures, 1997-2004 (in billions)



Source: Forrester Research, 2000–2001

The Yankee Group is taking a cautious route, with projections going only as far as 2001.

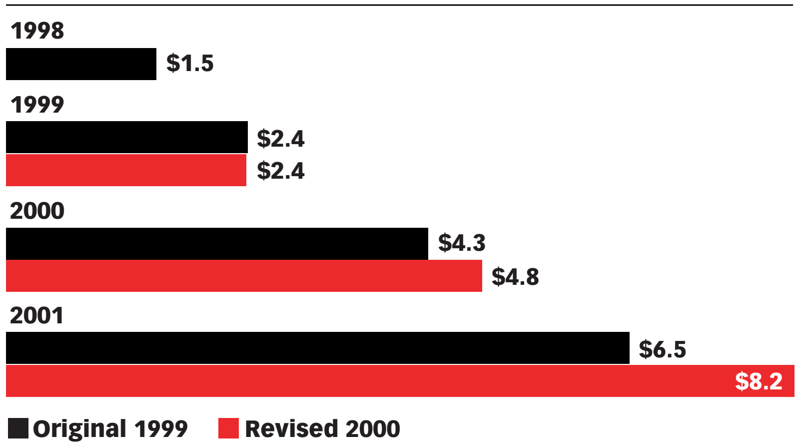
Recast US eAdvertising Expenditures, 1997-2001 (in billions)



Source: The Yankee Group, 1998–2000

The Myers Group has upped its 2001 forecast from $6.5 billion to $8.2 billion, although they will likely revisit this figure yet again given the March 2001 stock debacle.

Recast US eAdvertising Expenditures, 1998–2001 (in billions)



Source: The Myers Group, 1998–2000

On the other hand, several financial analysts have recently downgraded their forecasts. Merrill Lynch, in fact, has decreased its 2001 forecast several times over, and now (at the publishing of this report) predicts a 25% decline in ad revenues, from $8.0 billion in 2000 to $6.0 billion in 2001. Stay tuned for further updates from Mr. Lynch in the ensuing months.

Recast US eAdvertising Expenditures, 2000 & 2001 (in billions)

Year	Original 1999	Revised 2000	1st Revised 2001	2nd Revised 2001
2000	$8.0	$8.0	$8.0	$8.0
2001	$10.8	$9.0	$8.0	$6.0

Source: Merrill Lynch, 1999–2000

Merrill Lynch analyst Henry Blodget believes that the current weakness in online advertising is “cyclical, not secular,” due to an overcapitalized market in 1999 and 2000. Looking ahead, Blodget predicts “more normalized growth of 20% to 30% in 2002.”

JP Morgan reduced its estimates for 2000 and 2001 as follows.

Recast US eAdvertising Expenditures, 2000 & 2001 (in billions)

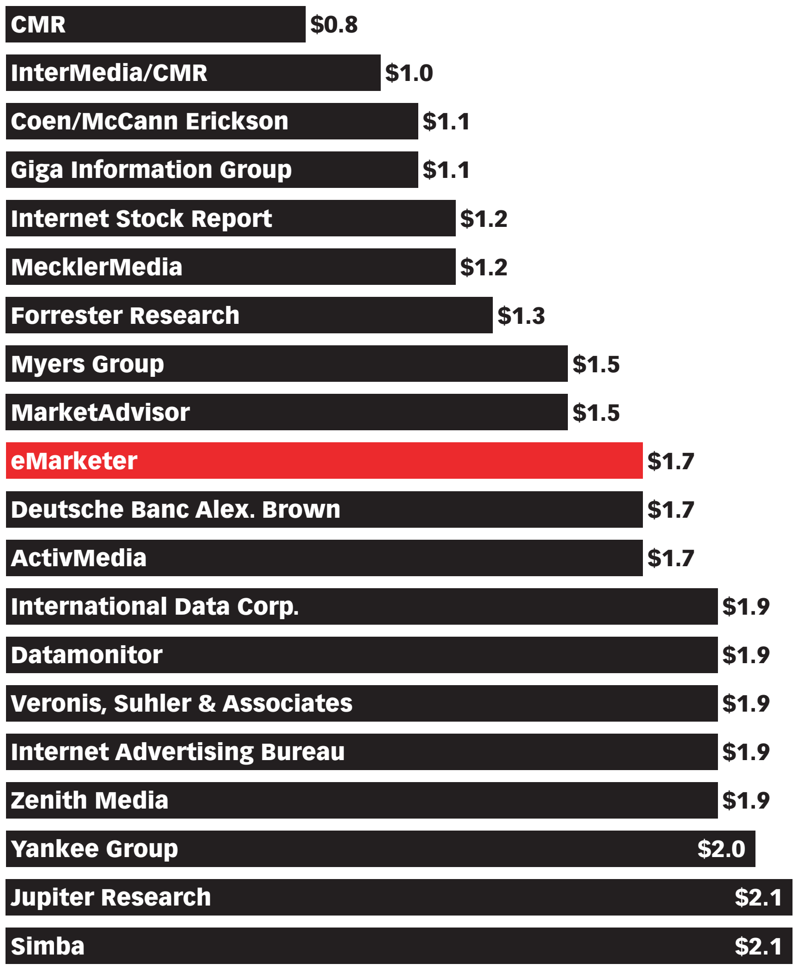
Source: JP Morgan, 1999–2000

Comparative Estimates

This section provides a review of source comparative data for web ad spending between 1998 and 2005. The reader should note the following caveats:

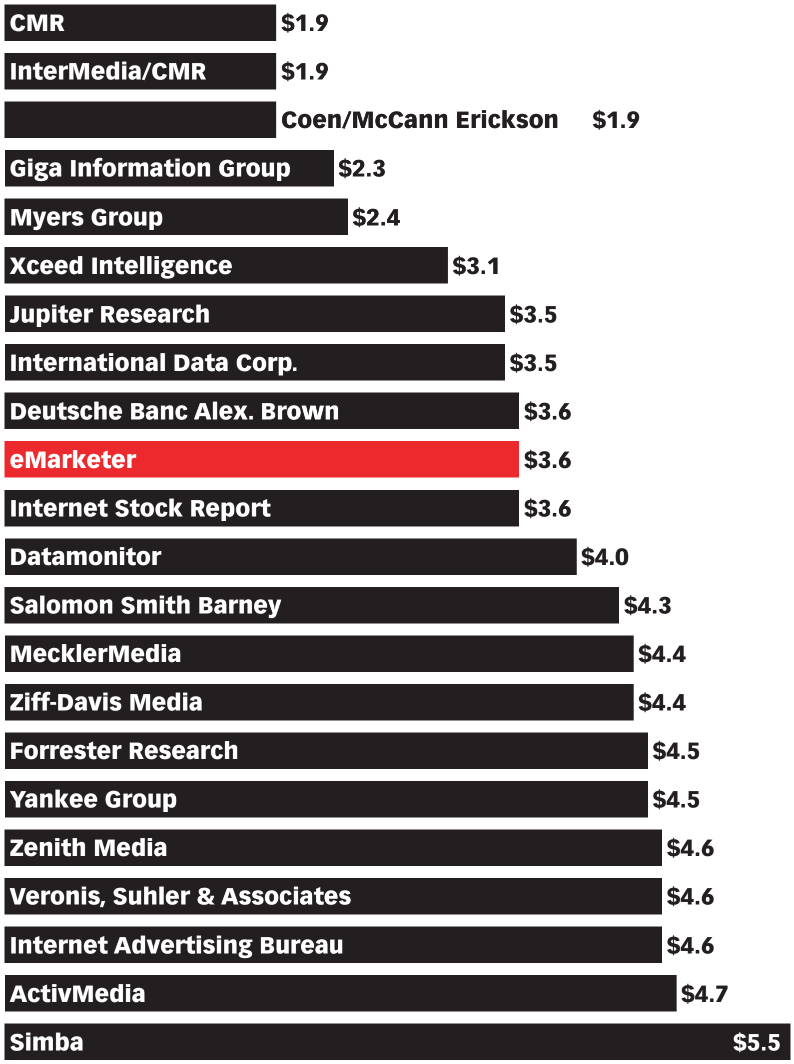
- Most major research firms, at the publishing of this report, had not recast their spending forecasts in reaction to the severe economic downshift in March 2001 (eMarketer has)
- Several researchers, including InterMedia Advertising Solutions (IAS) and AdZone Interactive, either do not take into account or minimize the degree to which advertisers and content sites engage in barter and discounting of rate cards (eMarketer’s analysis of data from numerous sources points to a discount factor of between 30% to 50%)

Comparative Estimates: US eAdvertising Expenditures, 1998 (in billions)



Source: eMarketer, 2001; various, as noted, 2000

Comparative Estimates: US eAdvertising Expenditures, 1999 (in billions)

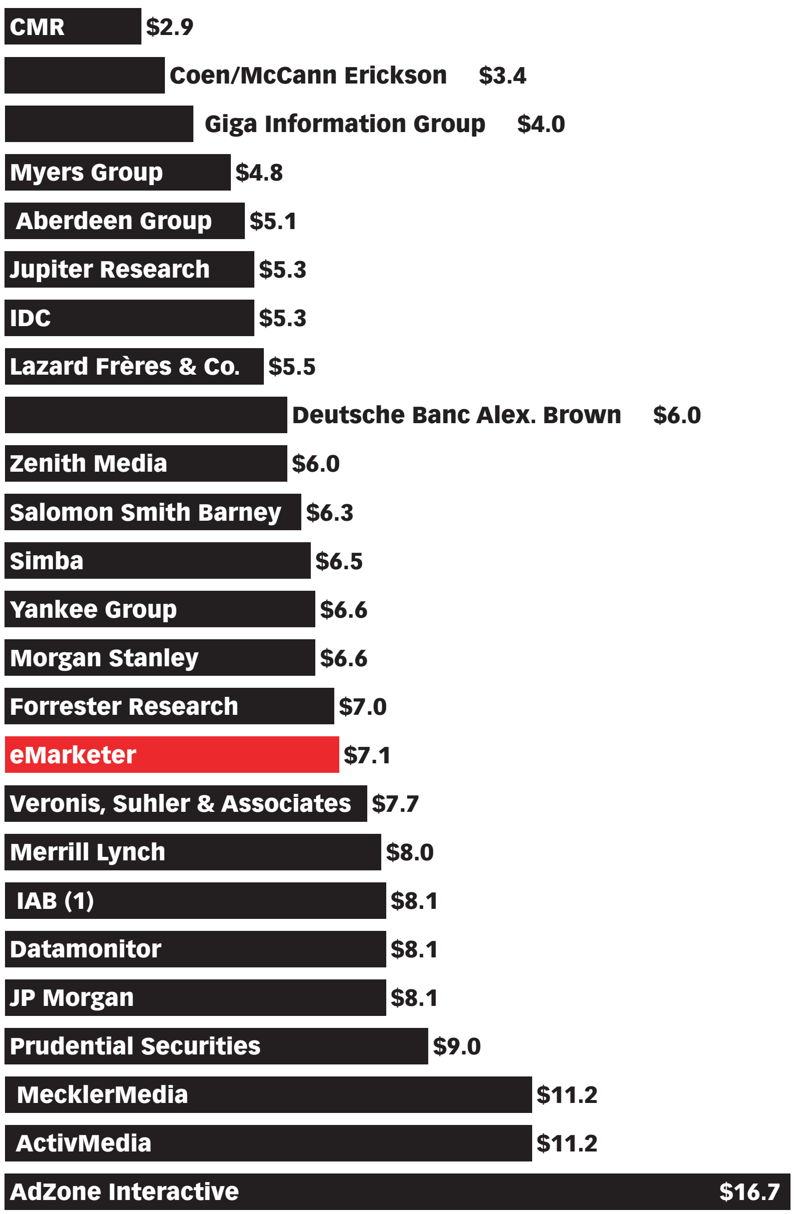


Source: eMarketer, 2001; various, as noted, 2000

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

For 2000, eMarketer estimated that internet advertising expenditures reached $7.1 billion, compared to low-end estimates by CMR at $2.9 billion and AdZone Interactive at the high end with $16.7 billion.

Comparative Estimates: US eAdvertising Expenditures, 2000 (in billions)



Note: (1) Actual IAB data through Q3 2000; eMarketer extrapolation based on IAB data for Q4 2000
Source: eMarketer, 2001; various, as noted, 2000

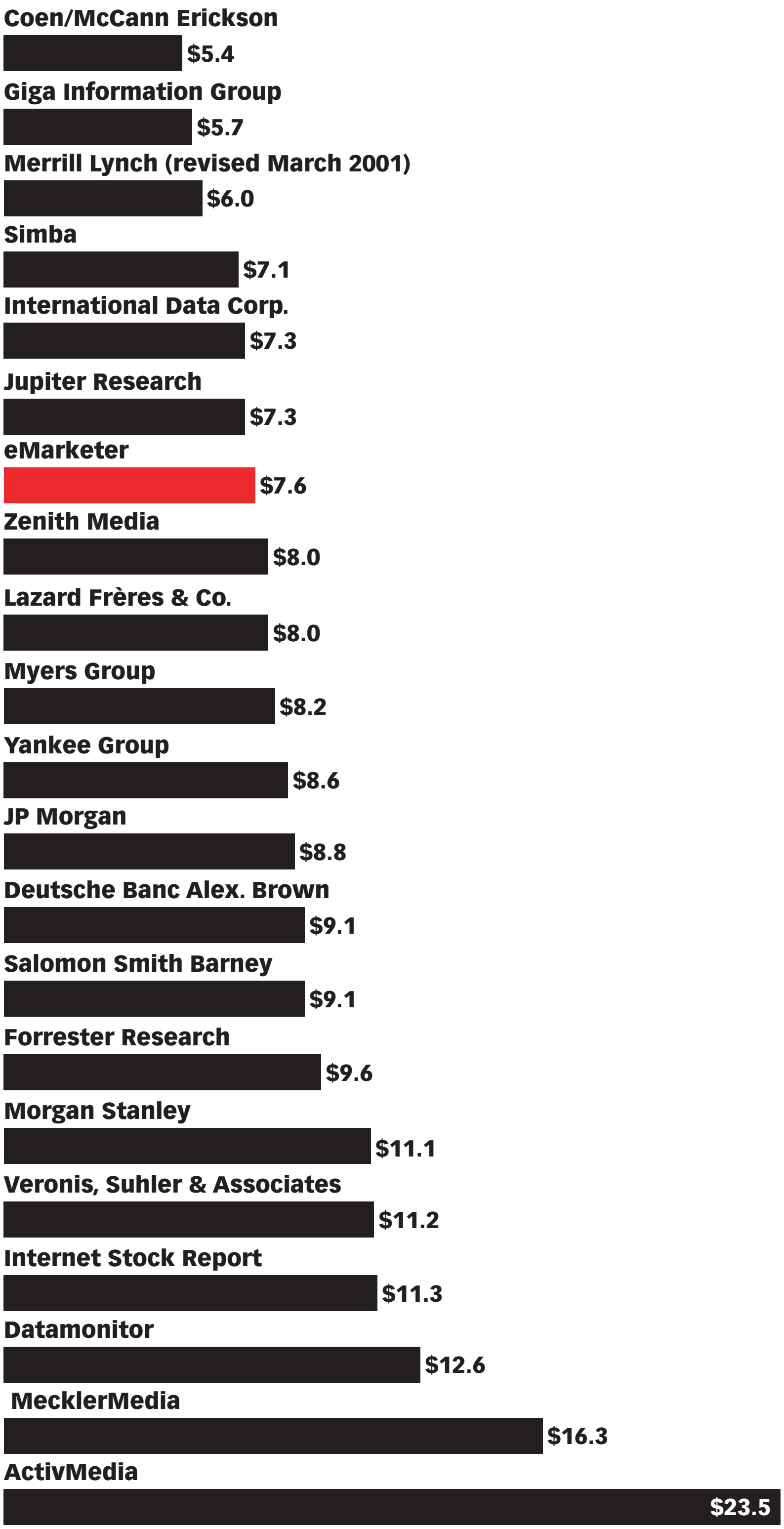
"We believe current industry forecasts underestimate both the magnitude and duration of the weakness in online advertising, and therefore will need to be revised lower."
— Lisa Haas, Wit SoundView

In 2001, eMarketer projects that web advertising will inch upwards to $7.6 billion. The low projection for that year is by Robert Coen, advertising guru at McCann Erickson ($5.8 billion). On the high end is ActivMedia Research with a figure of $23.5 billion.

"Internet numbers continue to be a mystery to me."
— Robert Coen, McCann Erickson

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

Comparative Estimates: US eAdvertising Expenditures, 2001 (in billions)

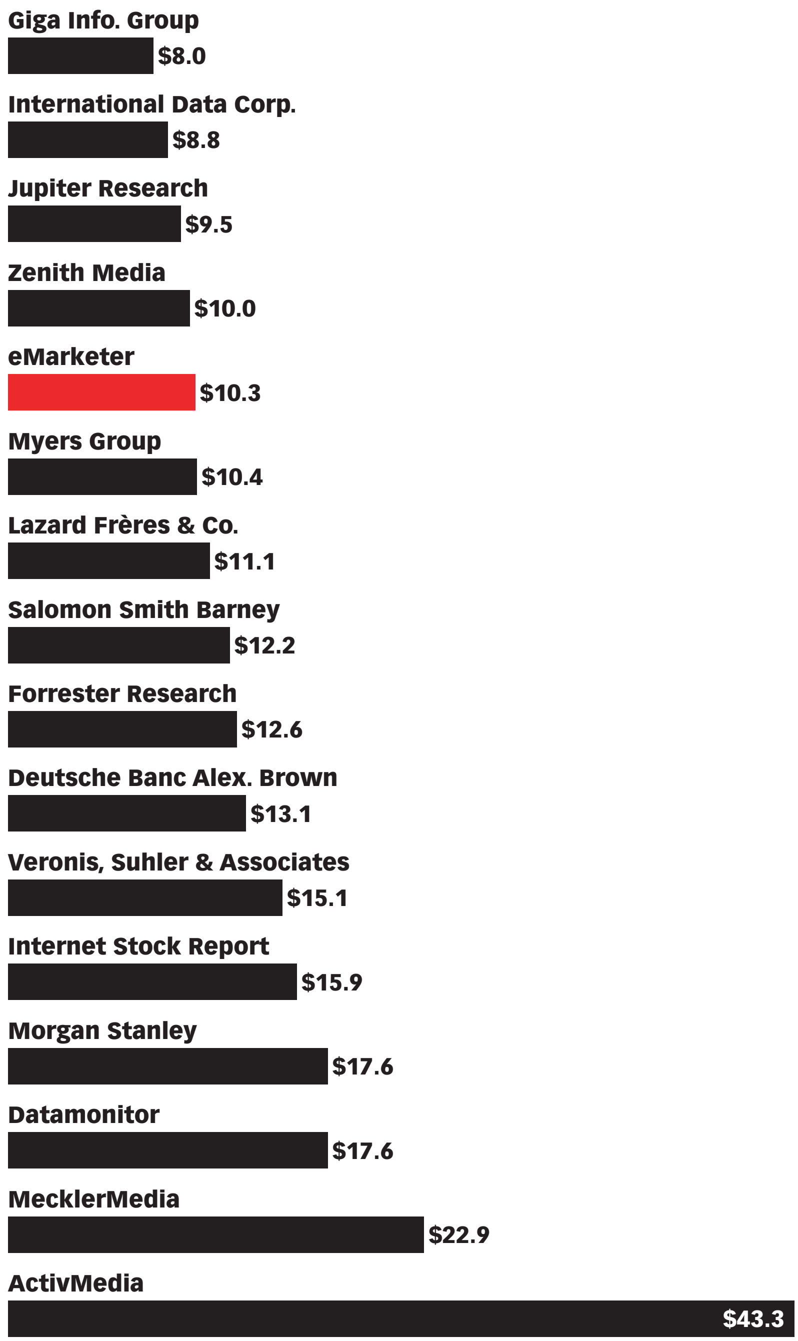


Source: eMarketer, 2001; various, as noted, 2000

A relatively recent survey from The Myers Group, conducted in late 2000 among online advertisers and agencies, indicates far greater optimism in web ad spending than had been reported by the media. The report also projected that internet spending would grow 70% in 2001.

In 2002, eMarketer projects web advertising will reach $10.3 billion, compared to Giga Information Group at $8 billion on the low end and ActivMedia Research's estimate of $43.3 billion on the high end.

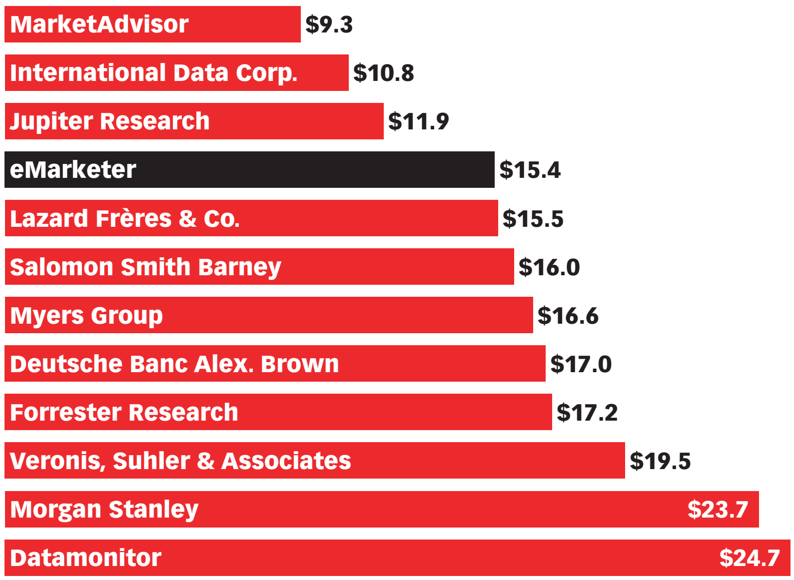
Comparative Estimates: US eAdvertising Expenditures, 2002 (in billions)



Source: eMarketer, 2001; various, as noted, 2000

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

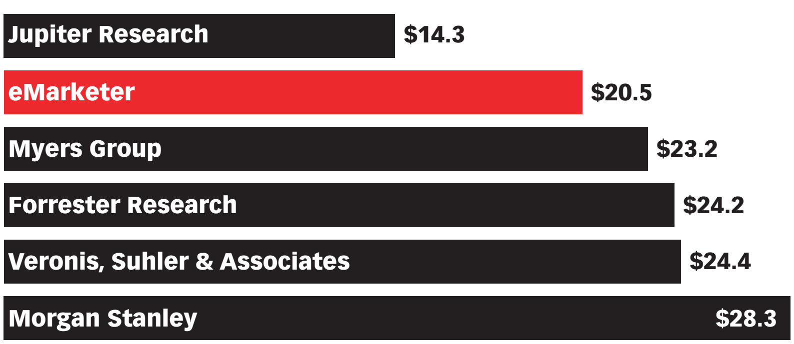
Comparative Estimates: US eAdvertising Expenditures, 2003 (in billions)



Source: eMarketer, 2001; various, as noted, 2000

Looking even further out, eMarketer predicts that by the year 2004 web ad expenditures will grow to $20.5 billion, compared with Jupiter Research's more pessimistic forecast of $14.3 billion. eMarketer's forecast is in the same range as those from The Myers Group, Forrester Research, and Veronis, Suhler & Associates.

Comparative Estimates: US eAdvertising Expenditures, 2004 (in billions)



Sources: eMarketer, 2001; various, as noted, 2000

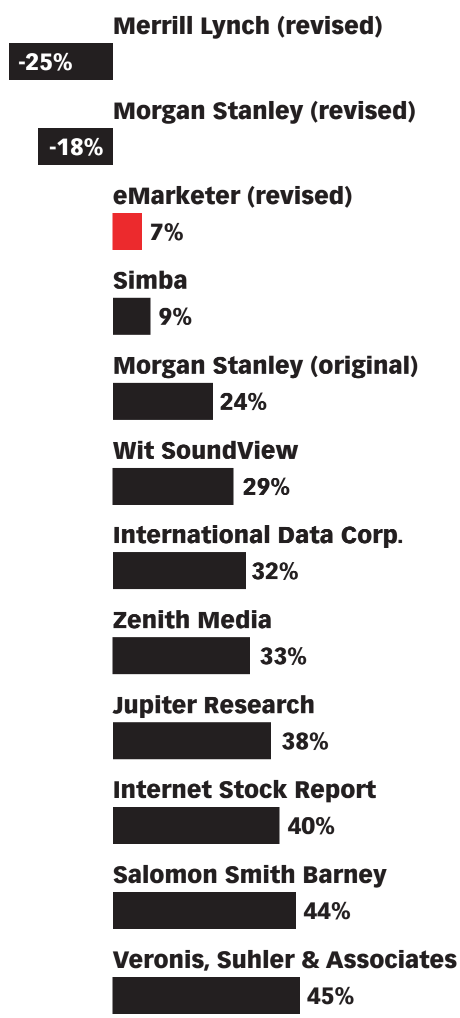
Finally, eMarketer has extended its forecast further, predicting that by the year 2005 web ad expenditures will grow to $23.5 billion, compared with Jupiter Research on the low end at $16.5 billion.

Comparative Estimates: US eAdvertising Expenditures, 2005 (in billions)

Source: eMarketer, 2001; various, as noted, 2000

To take another perspective, projections for growth in 2001 vary from 110% to -25%. eMarketer projects growth of 7%.

Comparative Estimates: Projected US eAdvertising Expenditures Growth, 2001



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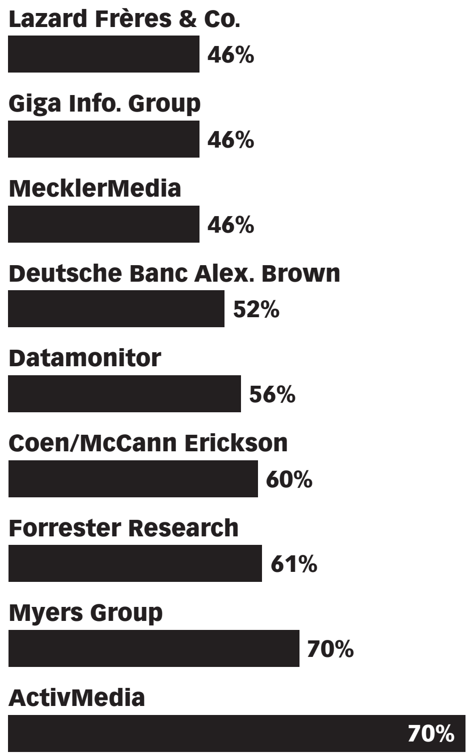


Source: eMarketer, 2001; various, as noted, 2000

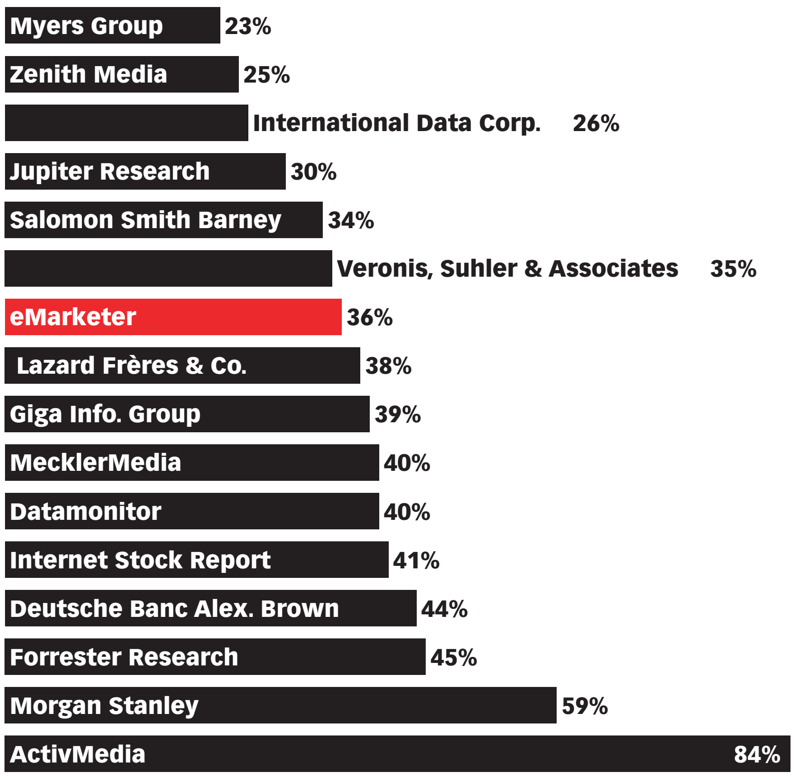
"The downturn in the media economy is being caused by predictable and cyclical factors...much of the consternation and fear of a sustained recession in the media industry is the result of overly aggressive and misinformed press reports. We believe the media economy is merely experiencing a cyclical hiccup in what will be a period of sustained economic growth."

— *Jack Myers, The Myers Group*

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

The growth rate projections for e-advertising expenditures in 2002 range from 23% to 84%. However, with the exception of eMarketer's 36% growth figure, none of these projections reflects the economic downfall in March 2001.

Comparative Estimates: US eAdvertising Expenditures Growth Projection, 2002



Source: eMarketer, 2001; various, as noted, 2000

Per Capita Spending

eMarketer projects that web ad spending per internet user will grew from $30.31 in 1998 to $80.77 in 2000. There will be a fall-off in 2001, to $73.90, but spending per net user will climb to $143.20 by 2004.

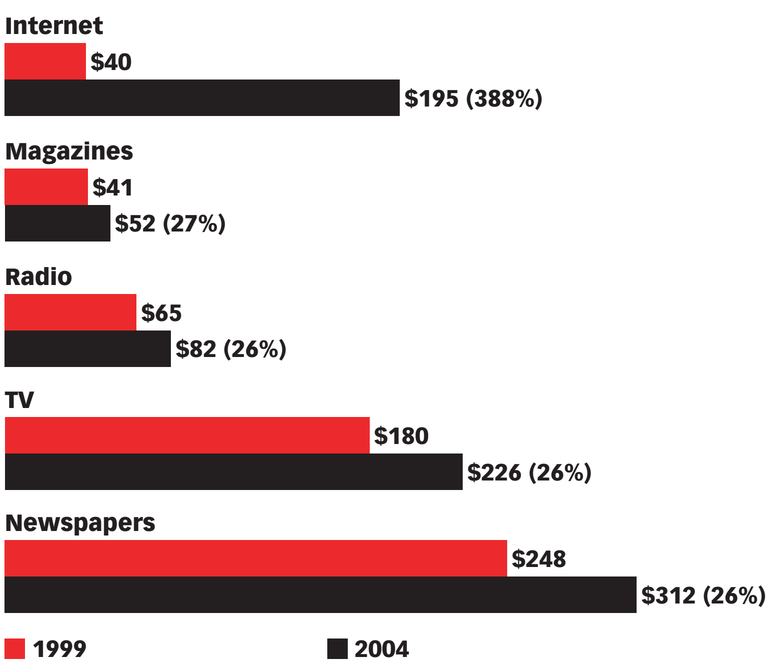
US eAdvertising Expenditures per Internet User, 1998-2004

	1998	1999	2000	2001	2002	2003	2004
eAdvertising spending, in billions	$1.7	$3.6	$7.1	$7.6	$10.3	$15.4	$20.5
US internet user pop. (14+) in millions	55.0	67.0	87.9	102.8	117.1	131.9	143.1
eAdvertising expenditure per internet user	$30.31	$53.73	$80.77	$73.9	$88.0	$116.8	$143.2

Source: eMarketer, 2001

Forrester estimated in 1999 that per capita web ad expenditures will grow from $40 in 1999 to $195 in 2004, at which point the web will rival TV in per capita ad spending.

US per Capita eAdvertising Expenditures by Media, 1999 & 2004



Source: Forrester Research, 1999

IAB Historical Data

For historical perspective, and to observe consistent measurement tracking from quarter to quarter, the Internet Advertising Bureau (IAB) has remained an important indicator of change in the online ad market. The IAB has reported the following quarterly spending on internet advertising. Note that the IAB will not release its Q4 2000 spending data until April 2001.

US eAdvertising Expenditures, by Quarter, 1996-2000 (in millions)

Quarter	Millions	Quarter-to-quarter change
Q1 1996	$29.9	–
Q2 1996	$51.9	74%
Q3 1996	$75.6	46%
Q4 1996	$109.5	45%
Q1 1997	$129.5	18%
Q2 1997	$214.4	66%
Q3 1997	$227.1	6%
Q4 1997	$335.5	48%
Q1 1998	$351.3	5%
Q2 1998	$422.7	20%
Q3 1998	$490.7	16%
Q4 1998	$655.6	34%
Q1 1999	$693.0	6%
Q2 1999	$934.4	35%
Q3 1999	$1,200.0	28%
Q4 1999	$1,709.3	40%
Q1 2000	$1,953.0	10%
Q2 2000	$2,124.0	9%
Q3 2000	$1,986.0	-6%

Source: Internet Advertising Bureau (IAB), 2000

The IAB's results for the third quarter of 2000 attracted even more attention than usual when it reported that third-quarter spending was $1.986 billion, compared with $2.124 billion in the second quarter. As noted earlier, it was the first sequential decline in web advertising ever recorded.

To put this event in perspective, from the beginning of 1996, when the IAB began tracking web ad spending, and for nearly five years thereafter, there had never been a sequential decrease. In fact, the average quarter-to-quarter sequential growth over the five-year period was 25%, and the smallest previous growth from quarter to quarter was 5%.

"The internet gold rush appears to be over, and the dot-coms are beginning to take a step back and evaluate their web development and overall promotion and marketing practices."
— H. Robert Wientzen, president, Direct Marketing Association

If we look at the third quarter of each year starting in 1996, we see that the 63% growth in the third quarter of 2000 is about half of the smallest previous growth rate compared with the previous year's quarter.

US eAdvertising Expenditures in Q3, 1996-2000 (in millions and as a % growth rate)

	Spending in millions	Growth rate
Q3 1996	$75.6	–
Q3 1997	$227.1	199%
Q3 1998	$490.7	116%
Q3 1999	$1,217.0	148%
Q3 2000	$1,986.0	63%

Source: Internet Advertising Bureau (IAB), 2000

The IAB took a temperate view of the situation, noting that despite the softening compared with the previous quarter, internet advertising totaled nearly $2 billion for the third quarter of 2000 and is still the "fastest-growing medium ever."

"The slight decline in online ad revenue should come as no surprise to the industry. The pullback of advertising by many companies in the dot-com sector, combined with the traditionally weak third quarter and the transition of the advertisers' focus on how to best take advantage of the internet, all have contributed to the third-quarter slowdown."
— Rich LeFurgy, Chairman, Internet Advertising Bureau

B. Seasonality

Seasonal trends are important when assessing the robustness of growth in a given quarter. eMarketer estimates quarterly web ad spending in 2000 as follows:

US eAdvertising Expenditures, Q1-Q4 2000 (in billions and as a quarter-to-quarter % change)

Q1 2000	$1.7 (+10%)
Q2 2000	$1.9 (+11%)
Q3 2000	$1.7 (-11%)
Q4 2000	$1.8 (+6%)

Source: eMarketer, 2001

The 6% rise in spending in Q4 was due to dot-coms and clicks-and-bricks alike scrambling to acquire customers over the holiday shopping season.

Over the past year or so, seasonal patterns in web ad spending have come to resemble those of more mature advertising mediums (i.e., print, radio and television), which suggests that the web is increasingly being included in normal budgetary processes along with traditional media. Earlier, large advertisers pulled internet ad monies from small, experimental budgets.

By averaging the growth rate for each quarter (i.e., versus the previous quarter) from 1996 to 2000, the IAB determined that growth was greatest in the second and fourth quarters (41% and 43%, respectively) while the first and third quarters experienced relatively slower growth (10% and 15%, respectively).

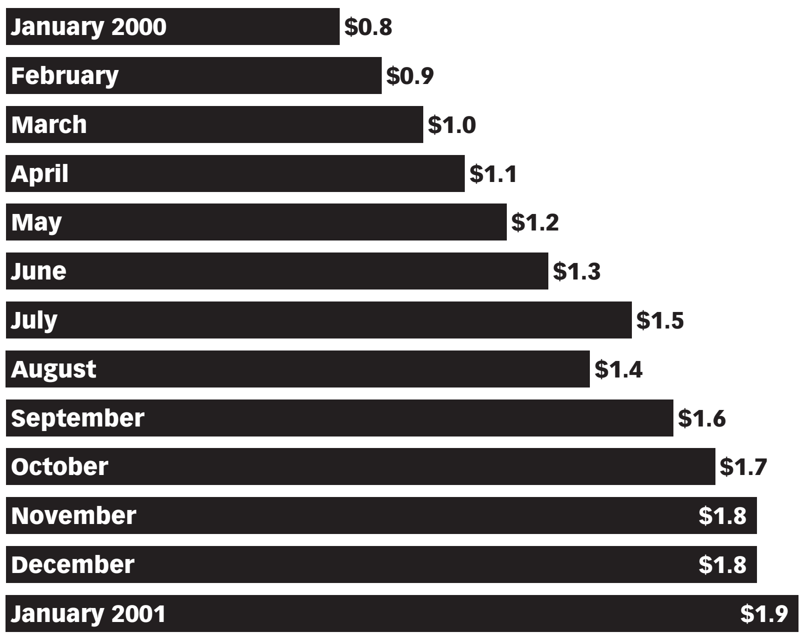
Average Quarterly Growth Rate of US eAdvertising Expenditures, 1996–2000

Q1	10%
Q2	41%
Q3	15%
Q4	43%

Source: Internet Advertising Bureau, 2000

An even more granular look at the short-term trend can be done using monthly data from AdZone Interactive and AdRelevance. While eMarketer believes the absolute values in AdZone's data are grossly overstated, it is still useful to track trends. AdZone's year-to-date monthly figures show a strong upward trend, despite a seasonal drop in August.

US eAdvertising Expenditures, Jan. 2000-Jan. 2001 (in billions)

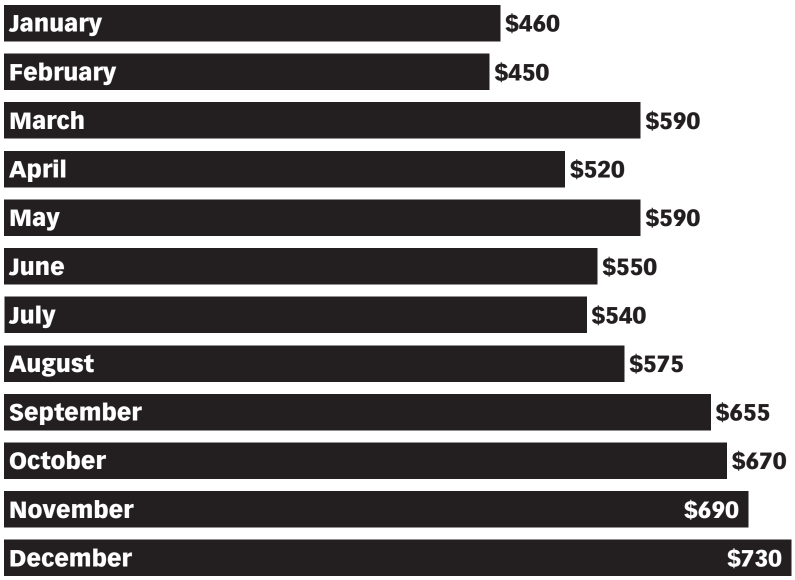


Source: AdZone Interactive, 2000

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

AdRelevance data, reflecting a more modest base of spending, presents a much flatter trend line, but still shows robust growth.

US eAdvertising Expenditures, by Month, 2000 (in millions)



Source: AdRelevance, 2001

As internet advertising has evolved, new means of tracking growth have emerged. AdRelevance, for example, has begun to track new advertisers coming online for the first time. The numbers show that in the course of the year 2000, the number of new advertisers has more than tripled, from 949 in January to 2,826 in December. While month-to-month growth has been uneven, growth has been strong. By the end of the year, over 20,000 new advertisers have come onto the web for the first time.

US Advertisers Coming Online for the First Time, 2000

Month	Millions	Cumulative total
January	949	949
February	948	1,897
March	1,038	2,935
April	1,361	4,296
May	1,105	5,401
June	1,413	6,814
July	1,221	8,035
August	2,031	10,066
September	2,237	12,303
October	2,443	14,746
November	2,952	17,698
December	2,826	20,524

Source: AdRelevance, 2001

Similarly, Leading Web Advertisers has begun to track the number of new brands advertising on the web. This data shows that new brands have grown 75% in the nine months from 492 in January 2000 to 861 in September 2000. Like the number of new advertisers, growth has been robust, with nearly 5,000 new brands being advertised on the web during the year.

New Brands Advertising Online in the US, Jan. - Sept. 2000

January	492	492
February	429	921
March	443	1,364
April	502	1,866
May	511	2,377
June	514	2,891
July	616	3,507
August	618	4,125
September	861	4,986

Source: Leading Web Advertisers, 2001

"The top 6 US advertisers spend less than 1% of their budget on the web. Additionally, based on our research, 55% to 70% of web ad spending is from dot-coms."

—Morgan Stanley Dean Witter, 22 February, 2001

Based on Competitive Media Reporting data, eMarketer approximates that offline spending by dot-com companies in 1999 exceeded $2.7 billion, with the majority going to TV ($875 million) and cable TV ($565 million).

eMarketer estimates that web advertising spending by dot-com companies, including New Media, Search Engine, and Content sites, was $864 million in 1999, representing just under one-quarter (24%) of their total web ad spending.In other words, dot-coms spent as much on TV as they did on web advertising.

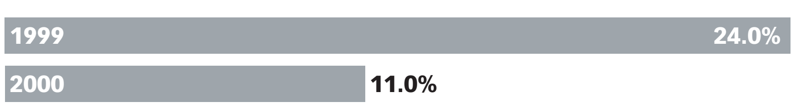
US Dot-Com Advertising Expenditures, by Media, 1999 (in millions)

TV	$869	24%
Cable TV	$557	15%
Magazines	$400	11%
Newspapers	$470	13%
Radio	$390	11%
Outdoor	$50	1%
eAdvertising	**$864**	**24%**
Total	$3,600	100%

Sources: Competitive Media Reporting (CMR), 2000; eMarketer, 2001

Although the dot-coms accounted for 24% of web ad spending in 1999, in the course of the turmoil of the year 2000, their share dropped significantly. Due both to cutbacks in marketing at the dot-coms and the influx of traditional marketers, the IAB reported that in the third quarter of 2000

US Dot-Com eAdvertising Expenditures, 1999 & 2000 (as a % of total e-advertising)



Source: Competitive Media Reporting (CMR), 2000; Internet Advertising Bureau (IAB), 2000

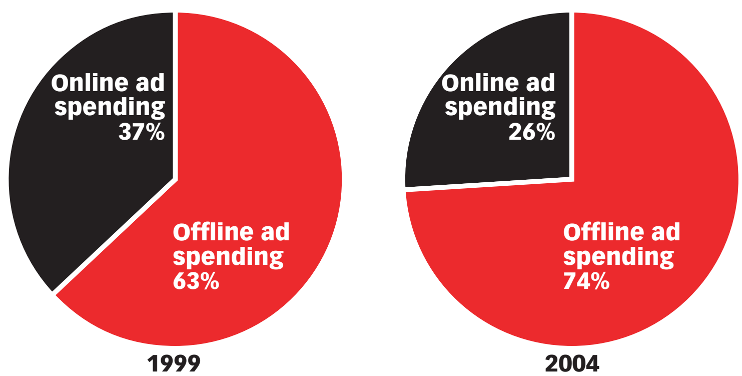
spending by New Media companies amounted to 11% of the total.

"What's coming into the market is the real money from the Fortune 100 companies. Traditional marketers will rule this space in late third quarter and blasting into the fourth."

— *Steve Klein, chairman, iballs.com*

Beyond the acute events of last year, it's worth noting that reduced spending on web ads by dot-coms is part of a longer-term trend. Forrester Research estimated that dot-com companies spent 37% of their budgets online in 1999, but that this will decline to 26% by 2004. The remainder goes to traditional media.

US Dot-Com Advertising Expenditures, by Channel, 1999 & 2004

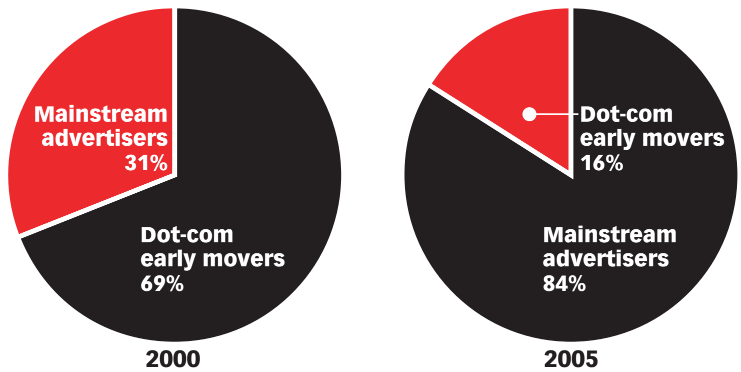


Source: Forrester Research, 1999

"Online advertising's current swoon won't last. The dot-com tide has begun to ebb — while dot-coms accounted for 69% of digital marketing in 2000, by 2005, traditional advertisers will embrace it, driving 84% of digital marketing."

— *Jim Nail, Forrester Research*

US Digital Marketing Expenditures, by Type of Advertiser, 2000 & 2005



Source: Forrester Research, 2001

The increasing use of the term “digital marketing” is an indication of the emerging awareness that web advertising is only one element of an overall web-enabled e-commerce and e-marketing capability.

Forrester expects web advertising to continue to account for roughly half of all digital marketing. With this solid driver in place, Forrester expects digital marketing to grow nearly sixfold from $11 billion in 2000 to $63 billion in 2005, and web advertising to grow at the same rate to nearly $31 billion.

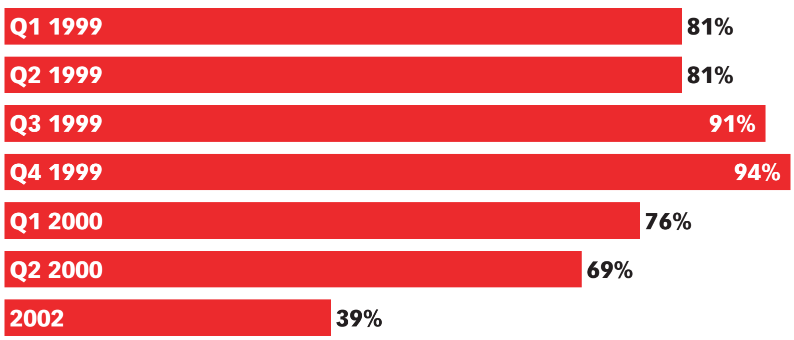
Finally, consider that as the web matures and becomes more like other media, the contribution by the dot-coms will also likely normalize and come to resemble spending patterns in other media. Dot-com spending on cable and network TV advertising, for example, is under 5% of total spending.

US Dot-Com Share of TV Advertising Expenditures, 2000

Source: Competitive Media Reporting (CMR), 2000

Similarly, Pegasus Research International predicts that spending on web advertising as a proportion of a dot-com company's revenue grew from 81% to 94% during 1999. However, it fell from 94% to 69% over the first two quarters of 2000. Pegasus projects that this proportion will decline to 39% by 2002.

US Dot-Com eAdvertising Expenditures, Q1 1999-Q2 2000 & 2002 (as a % of total expenditures)



Source: Pegasus Research International, 2000

"General Motors, the top US advertiser for 2000, spent less than 1% of its advertising on the internet, by our calculations."

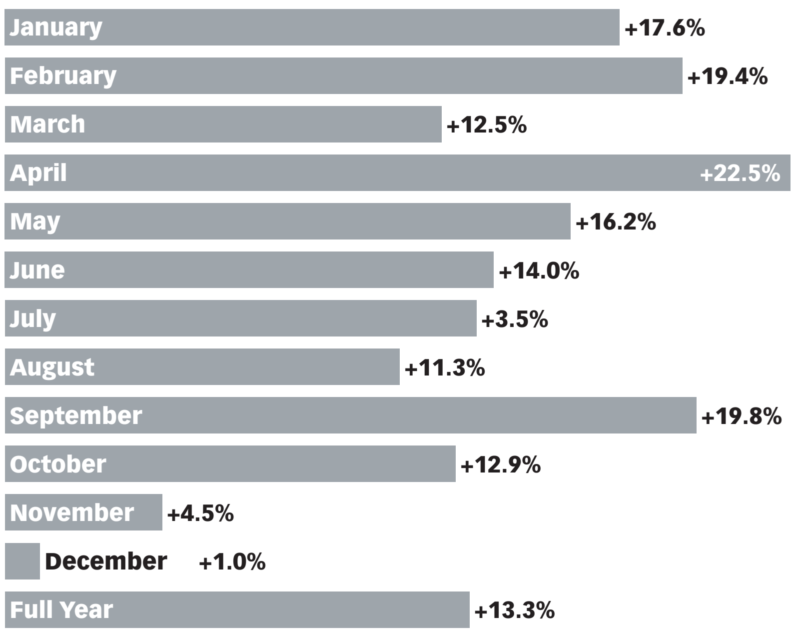
— Morgan Stanley Dean Witter, 22 February 2001

A. Spending Growth

As we move from a bull to a bear market, the growth rate for traditional advertising is expected to slow from the highs seen in recent years.

As an indication of this downward trend, month-by-month data from CMR shows a precipitous drop in growth towards the end of 2000.

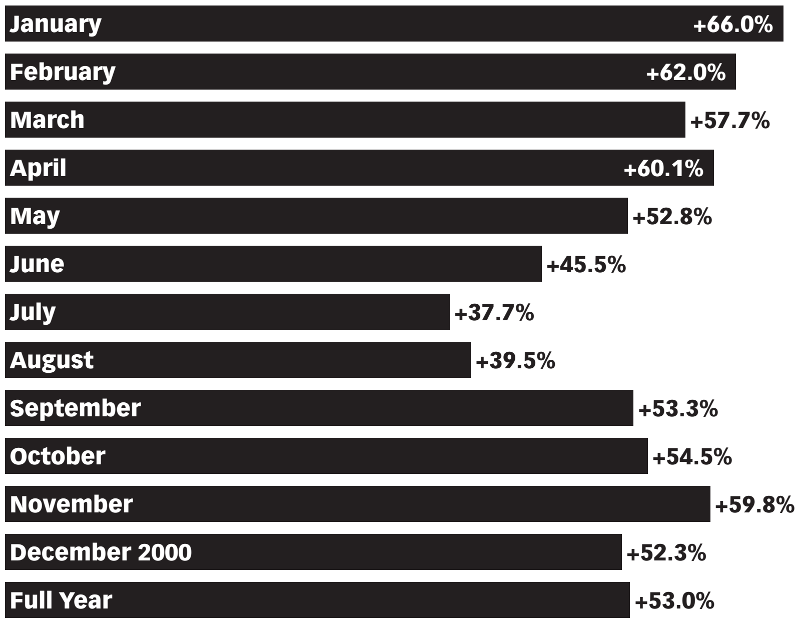
US Year-on-Year Growth of Advertising Expenditures, 2000



Source: Competitive Media Reporting (CMR), 2001

CMR also measured online ad spending growth for 2000. They found that web spending, at least through December 2000, was more resilient in the face of the overall economic downturn.

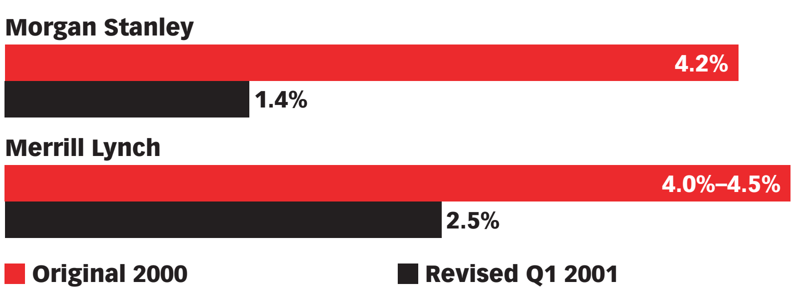
US Year-on-Year Growth of eAdvertising Expenditures, 2000



Source: Competitive Media Reporting (CMR), 2001

But the tides changed yet again in 1st quarter 2001, and they did so for the worse. Two competing Wall Street investment firms, Morgan Stanley and Merrill Lynch, downgraded their growth rate projections for total media spending in the US.

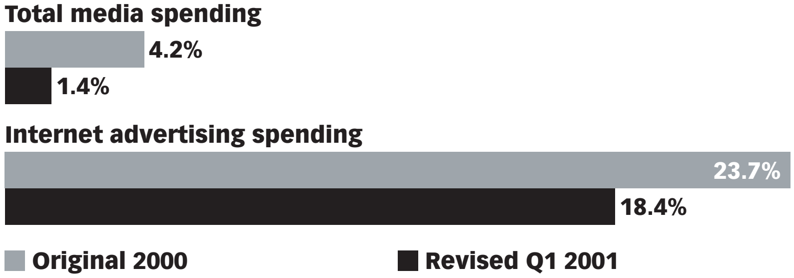
Growth of US Advertising Expenditures, 2001



Source: eMarketer, 2001; various, as noted, 2000

Morgan Stanley went so far as to say that the internet will actually hold back the overall rate of media spending growth. Its March 2001 report predicted a 1.4% growth rate for total US advertising, but a 2.3% growth rate if internet advertising was excluded.

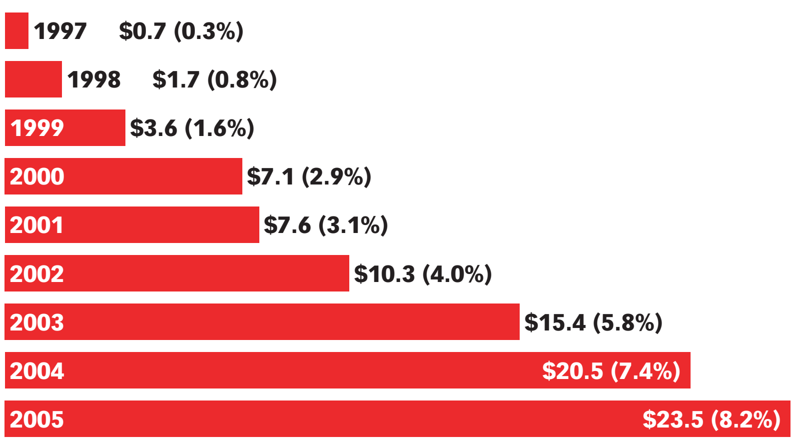
Growth of US Advertising and eAdvertising Expenditures, 2001



Source: Morgan Stanley Dean Witter, 2001

eMarketer projects that the internet's percentage share of advertising dollars will grow from 2.91% in 2000 to 8.24% by 2005.

US eAdvertising Expenditures, 1997-2005 (in billions and as a % of total expenditures)



Source: eMarketer, 2001

In 2000, web ad spending reached $7.1 billion, which represents 2.9% of total spending, estimated at $244 billion. Newspapers, at $48.9 billion; broadcast TV, at $45 billion; and direct mail, at $42.5 billion, were the largest advertising venues.

US Online Advertising Expenditures, by Media, 2000 (in billions)

Newspapers	$48.9	20.1%
Broadcast TV	$45.0	18.4%
Direct mail	$42.5	7.4%
Radio	$18.1	5.2%
Yellow Pages	$12.7	5.0%
Magazines	$12.2	5.5%
Cable TV	$13.4	0.9%
Outdoor	$2.2	17.4%
Other	$41.8	17.1%
Online*	$7.1	2.9%
Total	**$243.9**	**100.0%**

*Sources: Myers Group, 2000; *eMarketer, 2001*

Looking ahead to 2001, projected online ad revenues of $7.6 billion will represent just over 3% of total media spending in the U.S., estimated at $248.6 billion.

US Advertising Expenditures, by Media, 2001 (in billions)

Newspapers	$48.9	19.7%
Broadcast TV	$45.9	18.5%
Direct mail	$43.0	17.3%
Radio	$18.8	7.6%
Cable TV	$15.4	6.2%
Yellow Pages	$12.6	5.1%
Magazines	$12.7	5.1%
Outdoor	$2.7	1.1%
Other	$41.0	16.5%
Traditional media subtotal	**$241.0**	**96.9%**
Online*	$7.6	3.1%
Total	**$248.6**	**100.0%**

*Sources: Myers Group, 2000; *eMarketer, 2001*

The complete summary of eMarketer's US advertising model follows.

US Expenditures, by Media, 1997-2003 (in billions)

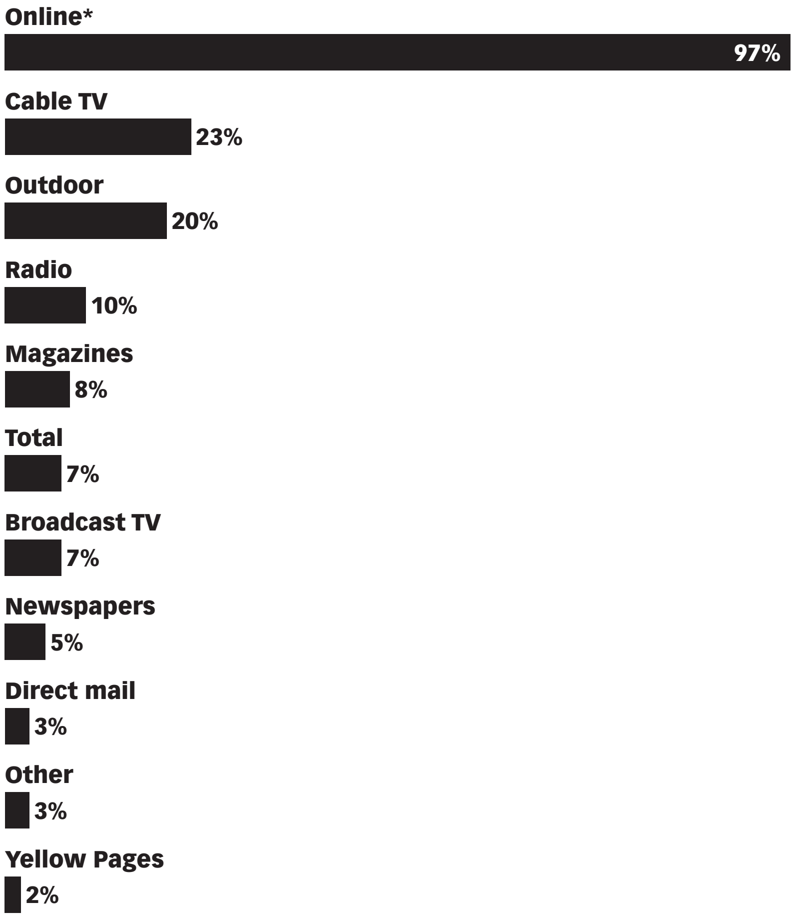
	1997	1998	1999	2000	2001	2002	2003
Newpapers	$43.70	$44.30	$46.70	$48.90	$48.90	$48.90	$47.90
Broadcast TV	$37.60	$39.90	$42.20	$45.00	$45.90	$47.00	$48.00
Radio	$14.30	$15.00	$16.40	$18.10	$18.80	$19.40	$20.00
Yellow pages	$11.70	$12.10	$12.50	$12.70	$12.60	$12.30	$12.00
Magazines	$9.50	$10.40	$11.20	$12.20	$12.70	$13.40	$14.30
Cable TV	$7.50	$9.10	$10.90	$13.40	$15.40	$18.40	$22.50
Online	$0.70	$1.70	$3.60	$7.10	$7.60	$10.30	$15.40
Outdoor	$1.70	$1.60	$1.80	$2.20	$2.70	$3.30	$4.10
Direct mail	$38.10	$39.70	$41.30	$42.50	$43.00	$42.10	$40.00
Other	$39.20	$40.00	$40.80	$41.80	$41.00	$41.40	41.80
Total	**$204.00**	**$213.80**	**$227.40**	**$243.90**	**$248.60**	**$256.50**	**$266.00**

Source: Myers Group, 2000; eMarketer, 2001

Web advertising grew by 97% in 2000, while cable TV increased by 23% and outdoor by 20% over the same period. Radio, magazines and broadcast TV followed at 10%, 8% and 7%, respectively. Total advertising grew at 7%.

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

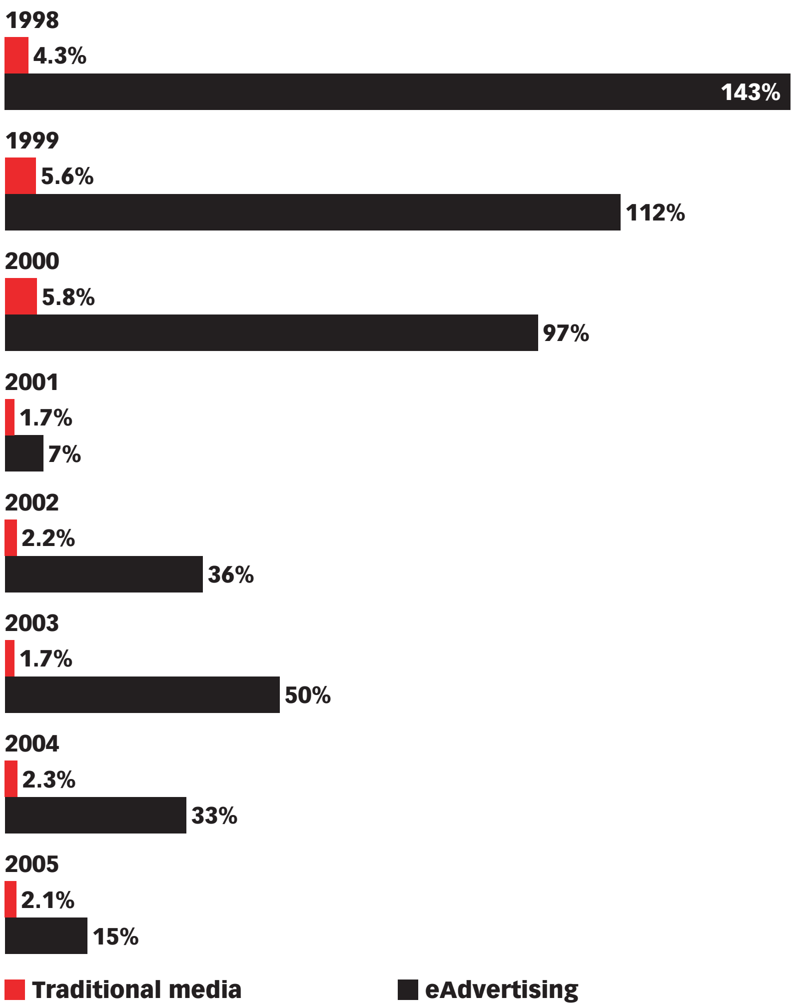
Growth in US Advertising Expenditures, by Media, 2000 vs. 1999



Source: Myers Group 1999; eMarketer, 2001*

As noted above, although the era of triple-digit growth rates has come to end, web advertising will still grow 7% in 2001 and by 36% in 2002. Despite the dot-com meltdown, and the now routine executions of internet company stocks, this represents growth well above normal expectations for virtually any other media vehicle. By 2005, the growth rate of online advertising will fall to 15%, still several notches higher than traditional media growth of 2.1%.

Growth Rates for US Traditional and eAdvertising Expenditures, 1998-2005



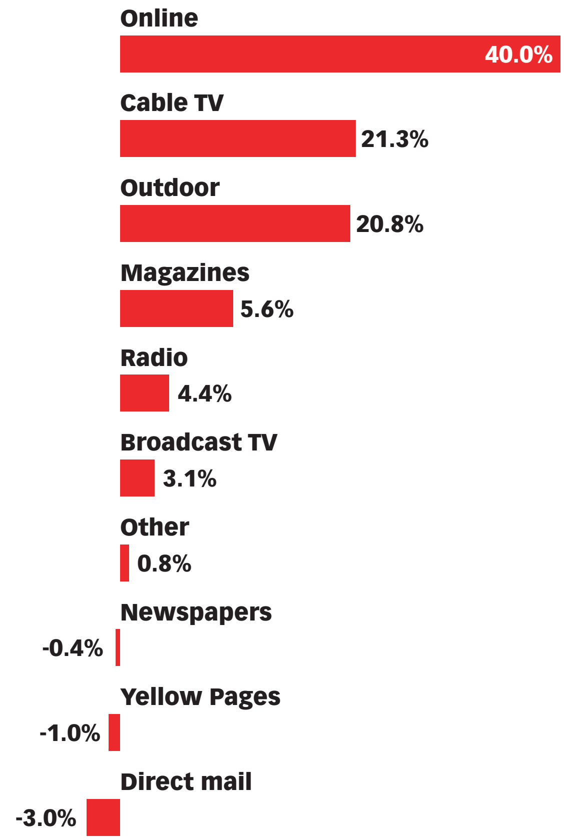
Source: Myers Group, 2000; eMarketer, 2001

Looking at the growth rates of advertising in each media reveals a somewhat more ominous picture, especially if you are in the newspaper, Yellow Pages, or direct mail businesses.

Online grows at an average annual rate of 40%. Cable TV, which next to online is arguably the most easily targeted advertising media, will grow at better than 21%. Outdoor follows with nearly 21% (albeit on a small base), and magazines follow at 5.6%. At the bottom of the list, and subject to declines, are newspapers, Yellow Pages and direct mail with negative growth rates of -0.4%, -1% and -3%, respectively.

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

US Traditional and eAdvertising Average Annual Growth Rates, 2000-2005



Source: Myers Group, 2000; eMarketer, 2001

Because the internet has the unique capacity to both brand and solicit direct response, newspapers and direct mail are likely to be most affected over the long term. To a lesser extent it may also impact Yellow Pages and local and regional magazines.

Television and radio, however, are likely to remain in growth modes despite the evolution of the internet. Advertisers, even dot-com pure plays, will continue to use these broad-based channels to create awareness, position their brands and drive site traffic.

Historically, the introduction of a new media has not eliminated incumbents. Despite initial fears, radio did not replace newspapers, and television did not replace radio. Advertisers realize that each medium has particular strengths, and each can be used to lead a prospective customer through different stages of the sales funnel. The internet will likely follow the same pattern, becoming one more mode of reaching and interacting with the consumer.

However, if the web does threaten to replace media functions now served by newspapers, Yellow Pages and direct mail, we would expect players in those segments (rather than rolling over and playing dead) to respond by aggressively developing web advertising and leveraging their legacy assets to create cross-platform advertising vehicles.

Forrester Research sees newspapers, direct mail and magazines as the most vulnerable to the internet's impact, followed by TV, Yellow Pages and radio. This reflects the conventional wisdom that the web, as an information media that can be updated rapidly, poses the biggest threat to replace the functionality of newspapers. Similarly, since banners and click-throughs are the electronic equivalent of direct mail, logic suggests that funds would be moved onto the web from traditional direct mail budgets.

Finally, magazines represent the most targeted medium in the traditional world, especially after several years of proliferation of subject-specific titles. Since the internet's potential for one-to-one targeting can potentially trump magazines, they have been thought to be vulnerable to electronic competition. On the other hand, just as predictions of the paperless office have not been realized, consumers continue to enjoy thumbing through their magazines.

B. Time Spent on Various Media

The amount of time consumers actually spend with each type of media is one of the most significant ways to judge their relative vitality. After all, there are still only 24 hours in a day.

Data from Veronis, Suhler & Associates indicates that the web's share of daily usage, measured in minutes, will grow at an average annual rate of 21%, while other major media will be flat. Yet even by 2003, average daily usage of the internet will still be only 12% of television's.

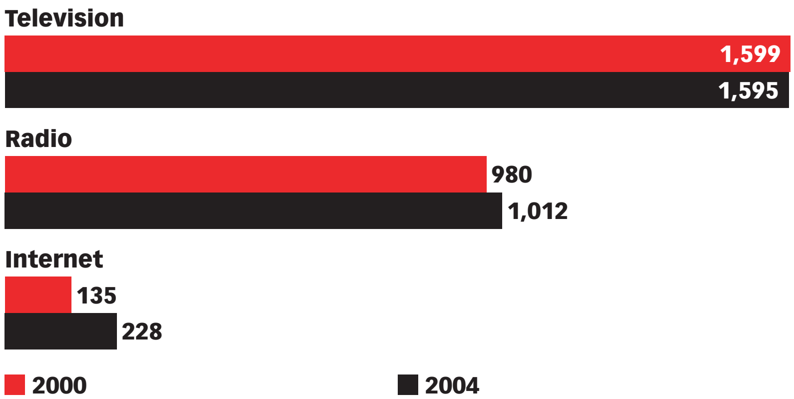
Daily Use of Advertising Media among US Consumers, 1998-2003 (in minutes)

	1998	1999	2000	2001	2002	2003
Television	258.6	259.6	261.5	262.2	263.8	264.7
Radio	172.6	170.5	168.3	166.7	164.9	163.1
Consumer magazines	13.5	13.3	13.2	13.0	13.0	12.8
Internet	12.2	15.9	20.1	24.0	27.6	31.6
Daily newspapers	25.6	25.3	25.0	24.8	24.7	24.5
Total	**482.5**	**484.6**	**488.1**	**490.7**	**494.0**	**496.6**

Source: Veronis, Suhler & Associates, 2000

Veronis Suhler data also shows media usage as measured in hours per year. In 2004, the web's share of media hours will still be a fraction of television's and radio's.

Annual Use of Advertising Media among US Consumers, 2000 & 2004 (in hours)



Source: Veronis, Suhler & Associates, 2000

An SRI survey taken at the end of 1999 showed that TV was still the central media channel at 253 minutes per day, or 50% share of daily minutes spent with media. Radio, which possesses the advantage of mobile connectivity, scored second with 156 minutes and a 31% share.

What was less expected, however, was that the study indicated that the average person spent 52 minutes daily on the web, the same time spent reading newspapers and magazines combined. Print media does have formidable strength in reach, however. Despite occupying only 4% of daily media minutes, magazines reach 33% of the population daily, while newspapers get 6% of minutes, but have an impressive 48% reach.

Daily Use and Reach of Advertising Media among US Consumers, 1999

	TV	Radio	Internet	Newspapers	Magazines
Daily reach	90%	68%	36%	48%	33%
Daily minutes	253	156	52	29	21
Share of daily minutes	50%	31%	10%	6%	4%

Note: Based on a random digital dial phone survey of 1,000 persons 12-plus in November 1999
Source: Statistical Research, Inc., 2000

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

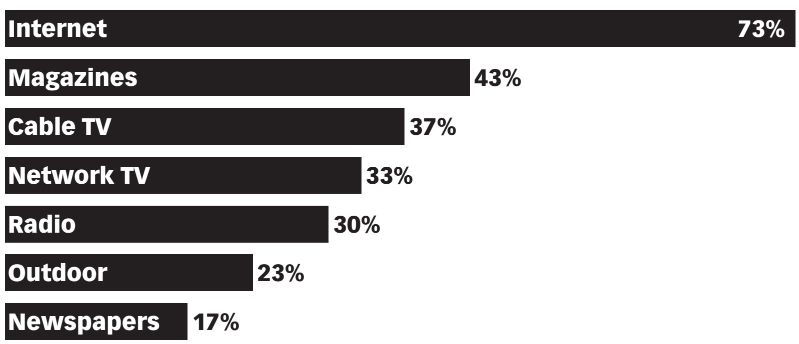
A survey of 4,000 consumers indicated that while 90% of internet users are spending more time on the internet than they did two years ago, 75% of viewers of cable TV, 74% of magazine readers and 62% of network TV viewers are also spending more time with the mediums.

Two-Year Growth in Time Spent on Media by US Consumers, 2000

Source: Erdos & Morgan, 2000

A Jupiter Research study indicated that ad budgets are expected to increase across all media.

US Advertisers Who Plan to Increase Their Ad Expenditures, by Media, 2000

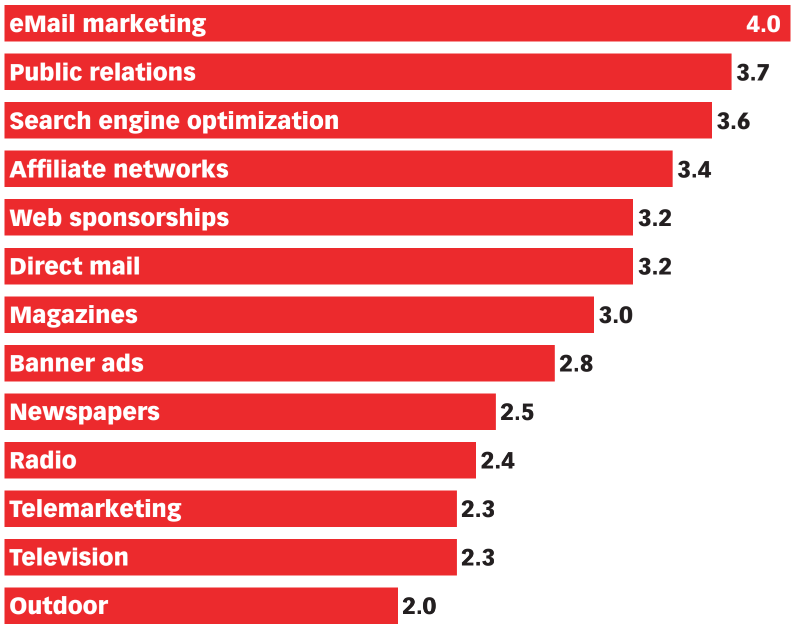


Source: Jupiter Research, 2000

And what do online advertisers see as the most important communications tools? A recent IMT Strategies study, conducted among 160 online marketers, found that e-mail marketing was their top investment priority, followed by public relations, search engine optimization and affiliate networks. Banner ads were rated relatively low on the list, below direct mail, web sponsorships and magazines.

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

eBusiness Marketing Investment Priorities among Online Marketers, 2000

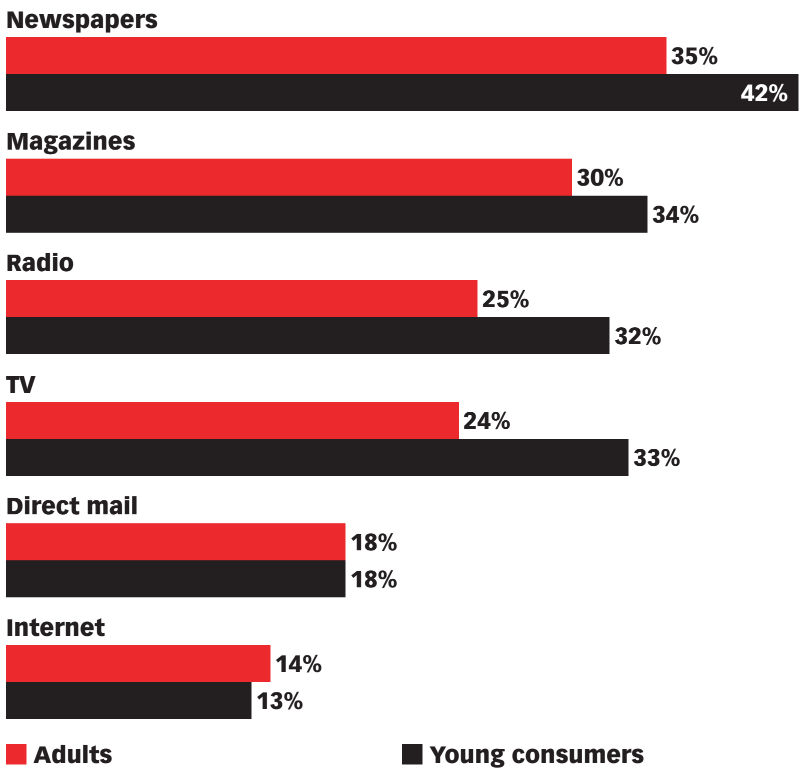


Note: Investment ratings represent average scores based on scale of 1 (low) to 5 (high)
Source: IMT Strategies, 2000

On the other hand, a Forrester study showed that traditional forms of media still win the trust battle. The internet is considered a trustworthy source of information by 14% of online adults and 13% of online young consumers. By comparison, even among this online population, newspapers score 35% and 42%, and magazines, radio and TV all have similar scores.

The only traditional media that is trusted to an extent similar to the internet is direct mail, scoring 18% among both adults and young consumers.

US Online Consumers Who Trust Ads, by Media, 2000



Source: Forrester Research, 2000

C. Television

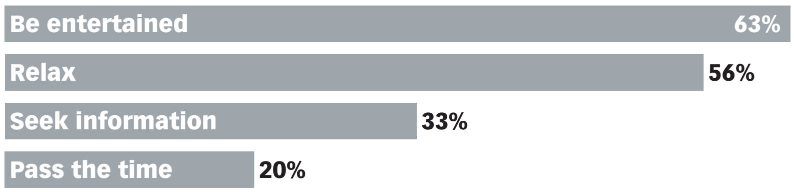
Perhaps because they both involve staring at a CRT (Cathode Ray Tube), observers have carefully watched the coming together of network computing and TV. They watch with fascination, trying to answer the question whether these two media will mate, kill each other, or both.

While superficially the two types of media are similar, below the surface they are very different. TV is fundamentally a passive medium, an entertainment box, while most web surfers are actively searching for specific information. But starting from these poles many envision a future where infinite gradations of entertainment and participation will be driven by interactive media.

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

Many studies have shown that web surfers are primarily going online in order to obtain information – they are on a self-directed search. TV, conversely, is an entertainment-oriented, passive medium. This proposition was supported by a Myers Group study, which showed that entertainment and relaxation are the primary reasons why television is America's most popular pastime.

Reasons Why US TV Viewers Stay Tuned, 2000



Note: Multiple responses allowed
Source: Myers Group, 2000

Nielsen Media Research reports that the average internet user frequents ten websites per month, a number that, while down from the average number of 12 two years ago, has held constant for some time. They spend on average about ten hours per month on the web, which translates into one hour per website per month.

Meanwhile as the internet has penetrated more broadly into society, and more citizens from the mainstream have become web surfers, the average negative effect on TV watching has dropped from 15% to below 10%. Conclusion: the early adopters of the internet were less involved with TV anyway.

A 1999 Stanford University study found that internet browsing was negatively impacting the use of mass media, particularly television. Among the 36% of consumers who spend at least five hours per week online, 60% report watching less television and one-third cite a decline in newspaper reading.

Perhaps more interesting is data that showed that web surfers were more "involved" in their use of the media compared to TV and radio. Web surfers were involved during 93% of the minutes they spent online, compared to 83% involvement of TV viewers, and 80% involvement of radio listeners.

Daily Use of Media by US Consumers Aged 12+, 2000

	Minutes	Involved minutes	% involved
TV	252	210	83%
Radio	154	123	80%
Internet	59	55	93%

Note: Adjusted for involvement
Source: SRI's Media Mentor, The Myers Report, 2000

Data from Forrester, IDC and AdKnowledge showed TV's strong position, when compared to the internet in terms of viewing hours and per capita spending. While the data indicated that TV is more economical on a CPM (cost per thousand) basis, eMarketer suspects this difference is vastly overstated (as discussed earlier) and internet CPMs are at least in the same range as TV.

US TV and Internet Consumption and Spending, 2000

	Television	Internet
Viewing hours per day (per household)	7	0.75
Cost per thousand impressions (CPM)	$13	$3-$30
Per capita advertising spending	$258	$40

Source: Forrester Research, International Data Corp. (IDC), AdKnowledge, 2000

According to Cyber Dialogue internet users spend almost half of their online time simultaneously watching television.

TV Viewing and Web Surfing per Week among US Internet Users, 2000 (in hours)

Source: Cyber Dialogue, 2000

According to a March 2001 report from Merrill Lynch, spending on local and national television advertising is expected to fall by 3% – 4% for most of the year, and plummet by 7% in the last quarter of 2001.

In contrast, the Myers Group expects broadcast TV to grow modestly from $45 billion in 2000, to over $50 billion in 2005.

US Broadcast TV Advertising Expenditures, 2000-2005 (in billions)

Source: Myers Group, 2000

The reader should note that cable television shares some common themes with the internet. Not too long ago, cable was the "new media." It offered viewers niche programming tailored to their individual tastes. The early adapters of cable were affluent households that were more likely to have kids. Cable also gave advertisers the ability to deliver their ads to targeted audiences. It is a formula that continues to work.

D. Radio

Though few would have predicted it, national radio-ad spending fell 15% in January 2001 from the same month a year earlier, according to the Radio Advertising Bureau. Whether this trend will continue or not, remains to be seen.

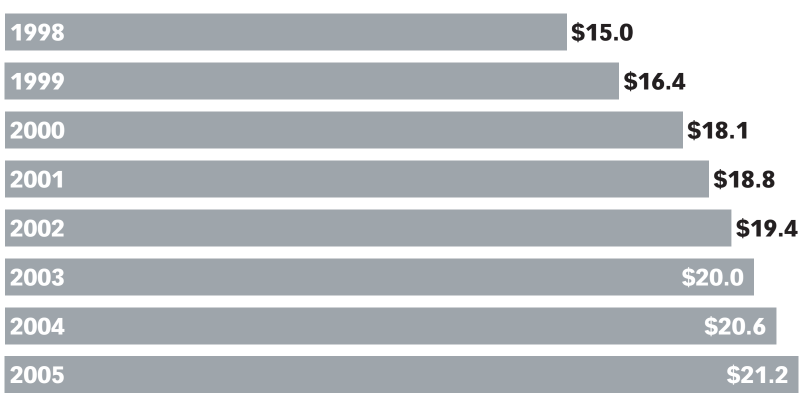
One offsetting factor for the medium could be internet radio, which some analysts argue will grow rapidly because of its extreme targeting capability.

According to Veronis Suhler, while the average listener will have spent 980 hours listening to the radio in 2000, the average time spent in 2005 will be 1,012 hours.

"There were a lot of people who looked at the internet the same way that early TV looked at radio. They thought 'we're just replacing ink on pages with internet.'"

— Patrick Marshall, VP - Marketing, Verizon

US Radio Advertising Expenditures, 1998-2005 (in billions)



Source: Myers Group, 2000

E. Newspapers

Many researchers have speculated that the internet will increasingly erode newspaper usage and sales. Even before the internet arrived, it was apparent that, over the long term, newspaper circulation has been declining.

US Daily Newspaper Circulation, 1985-2000 (in millions)

Year	Total daily circulation	Change
1985	62.8	0.9%
1986	62.5	-0.4%
1987	62.8	0.5%
1988	62.7	-0.2%
1989	62.6	-0.1%
1990	62.3	-0.5%
1991	60.7	-2.6%
1992	60.2	-0.9%
1993	59.8	-0.6%
1994	59.3	-0.8%
1995	58.2	-1.9%
1996	57.0	-2.1%
1997	56.7	-0.5%
1998	56.2	-1.0%
1999	55.1	-1.9%
2000	54.9	-0.4%

Source: Newspaper Association of America, Audit Bureau of Circulation 2000; eMarketer, 2001

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

Nonetheless, assessing the rate of change in each of the last four decades, it becomes obvious that the weakening of newspaper circulation accelerated in the 1990s - an unparalleled rate of -1.2% annually.

Decade-to-Decade Change in Daily US Newspaper Daily Circulation, 1960-2000

Year	Ten-year change	Average annual change
1960-1970	5.5%	0.2%
1970-1980	0.2%	0.0%
1980-1990	0.2%	0.0%
1990-2000	-11.9%	-1.2%

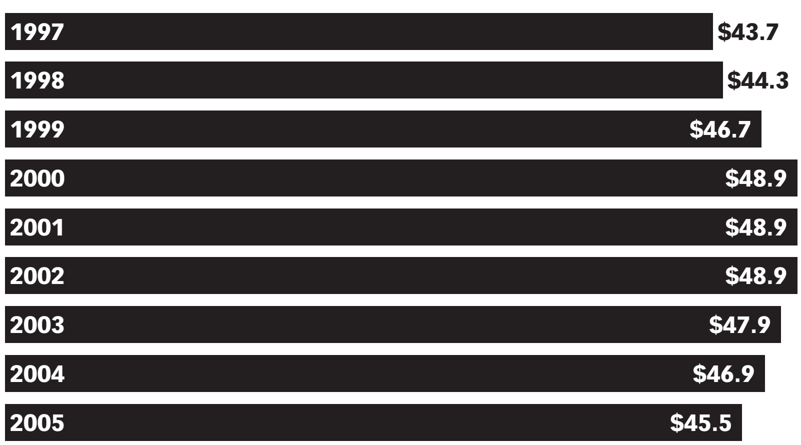
Source: Newspaper Association of America, 2001

The declines might have been worse but for aggressive price-cutting by some newspapers in competitive markets. In fact, price-cutting became so aggressive it led to a reexamination of methods for measuring circulation.

Newspapers also have their strengths. Most importantly are probably "look and feel," and the reader's ability to scan information rather than search narrowly. The internet is also an information-driven medium and good at disseminating information quickly, but has the potential to use audio and video to mirror television and radio.

While newspaper's advertising revenue has been growing modestly in the recent past, it is expected to plateau this year and remain flat until 2003, when it will begin to decline.

US Newspaper Advertising Expenditures, 1997-2005 (in billions)



Source: Myers Group, 2000

In response, newspapers continue to create their own web efforts; their websites can make existing information even more useful to consumers. Newspapers can feature content online that might otherwise be unused because of space constraints in the printed form.

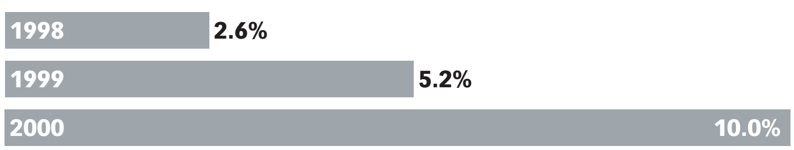
"People want basically the same things with news as they've always wanted: dependable, up-to-date information. The web lends itself to giving people that better than any vehicle we have now."
—Dean Mills, Dean of Journalism, University of Missouri

F. Magazines

Despite some analysts who assumed that magazines would be immune to overall media spending declines, the most recent February 2001 data from the Publishers Information Bureau showed a spending decline of 0.3% over February of 2000. This is the first measured dip of any medium so far.

In the year 2000, the top 25 magazines grew 4% in pages and 8.7% in advertising dollars. The magazine industry as a whole grew over 10% in pages, and 14% in advertising revenues.

Year-on-Year Growth in US Magazine Industry Advertising Pages, 1998-2000



Source: Publishers Information Bureau, 1999–2000

The Myers Group tends to be conservative in measuring revenues in the magazine industry, and believes that growth will continue through 2005.

US Magazine Advertising Expenditures, 2000-2005 (in billions)

2000	2001	2002	2003	2004	2005
$12.2	$12.7	$13.4	$14.3	$15.0	$15.6

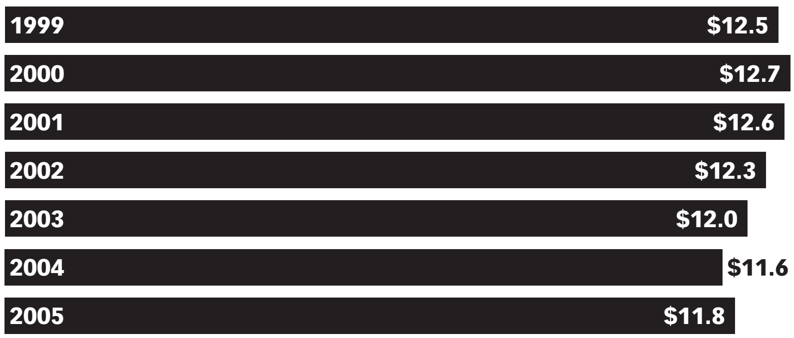
Source: Myers Group, 2000

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

G. Yellow Pages

Advertising expenditures on Yellow Pages ended its growth period last year when it hit $12.7 billion. This year is expected to begin a period of gradual decline ending up at $11.8 billion in the year 2005.

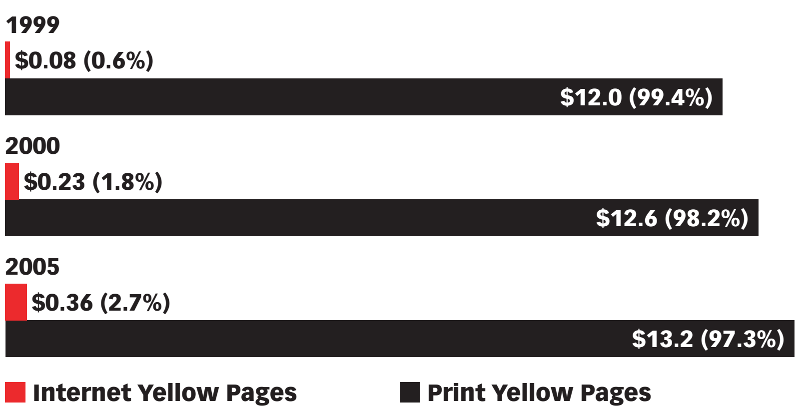
US Yellow Pages Advertising Expenditures, 1999-2005 (in billions)



Source: Myers Group, 2000

Yellow Pages are thought to be the service that has the most potential to be vulnerable to replacement by the internet. Available studies, however, don't necessarily support that theory. The Kelsey Group, for example, expects internet Yellow Pages to account for only 2.7% of total Yellow Pages spending in 2005.

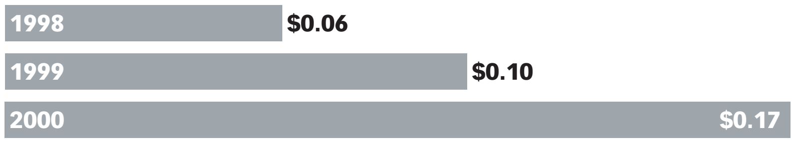
US Print and Internet Yellow Pages Expenditures, 1999, 2000 & 2005 (in billions)



Source: Kelsey Group, 2000

The Yellow Pages Publishers Association came up with a different set of figures that projected an even slower growth rate for internet Yellow Pages.

US Internet Yellow Pages Expenditures, 1998-2000 (in billions)



Source: Yellow Pages Publishers Association, 2000

One more data point is available from Verizon, whose online Yellow Pages offering is growing rapidly. The typical local telephone company is reinforcing its competitive position by embracing interactive media and developing a broader vision of the online directory. Rather than simply transporting a list on paper to a list on a computer, online Yellow Pages have the potential for a broader range of functionality, better personalization and customization, and interactivity.

US Internet Yellow Pages Expenditures, 1997-2000 (in millions)

Source: Verizon, 2000

Given the reputed high profit margins of print Yellow Pages, and the emergence of classified listings as a major component of web advertising (see later discussions), we expect the internet to expand strongly into the directory space. Our assessment is that the Yellow Pages represents the easiest and perhaps tastiest target for the web to do some cannibalization of traditional media.

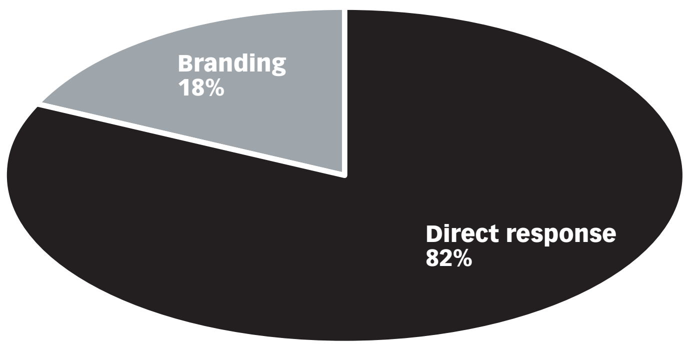
H. Direct Marketing

There is much debate about whether web advertising is best used for branding or for soliciting direct response. eMarketer has in the past strongly sided with the DR position. However, there is evidence that as web advertising evolves, its effectiveness for branding will evolve as well.

The internet, because of its ability to provide immediate feedback and precise measurement of results should, in theory at least, be the ultimate direct marketing vehicle.

Most industry watchers have speculated that direct marketing will serve as the dominant form of internet advertising. In 2000, eMarketer estimates that direct response was the primary objective for 82% of online advertising expenditures, leaving the remaining 18% of dollars for branding-oriented efforts.

US eAdvertising Expenditures, by Marketing Objective, 2000



Source: eMarketer, 2001

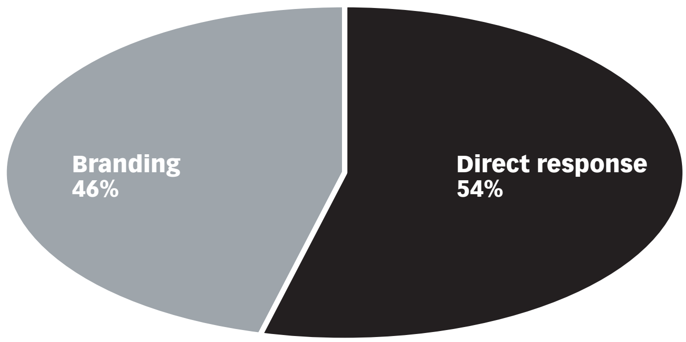
As support, eMarketer asked leading online ad serving firms, DoubleClick and 24/7 Media about the distribution of web ads they deploy for their clients. Both firms said that about 80 - 90% of banners served were direct response in nature.

In contrast, AdRelevance (a division of Jupiter Media Metrix) recently issued a report claiming that 63% of banners were for “branding” purposes (i.e., where click-through was not the going to be the right metric).

Forrester Research, looking at the future, predicts that 50% of web advertising spending will be performance-based.

A comparison with the real world is in order. In the traditional (i.e., non-internet) media space, direct-response (including direct mail) makes up 54%, or $71 billion of the major measured media market, which the Direct Marketing Association estimated at $131 billion in 2000.

US Advertising Expenditures, by Marketing Objective, 2000



Source: Direct Marketing Association, 2000

"Companies are increasingly using the web to improve the bottom line of their businesses. Direct marketers are among the first companies to actually make money on the internet, since they already have made the infrastructure investments needed to fulfill orders efficiently and they are experts in customer service and database marketing."

– H. Robert Wientzen, President and CEO, Direct Marketing Association

Direct marketers were not the early adopters of web business models, but that has been changing. Direct marketers are leveraging their databases and experience in customer service and order fulfillment to create new web initiatives. By 1999, 90% of direct marketers had their own websites and in 2000 this rose to 96%.

Now that direct marketers are moving onto the web with purpose, and given the web's utility as a direct response medium, we would expect direct marketers to take a leading position in developing new techniques for web marketing.

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

US Direct Marketers with Their Own Websites, 1999 & 2000

1999	90%
2000	96%

Source: Direct Marketing Association, 2000

In a favorable portent for web advertising, the use of online promotions is just as prevalent as the workhorse of direct marketing, traditional direct response advertising.

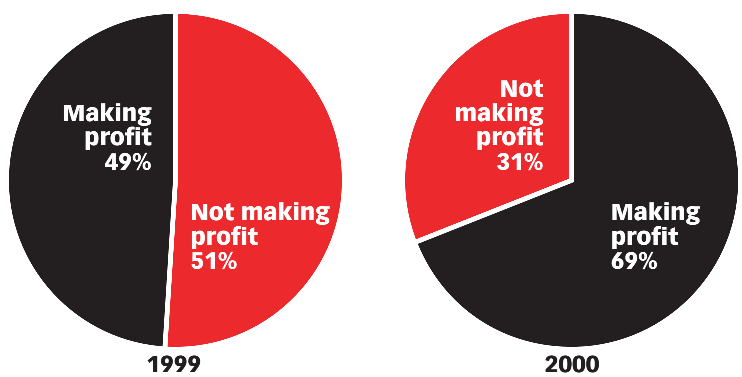
US Direct Marketers Use of Online and Offline Techniques, 2000

Direct response advertising	85%
Online promotions	85%

Source: Direct Marketing Association, 2000

Moreover, direct marketers are making money on the web. According to research by the Direct Marketing Association, 69% of direct marketers that conduct transactions at their websites are making a profit on these transactions. This is up significantly from the 49% reported in the DMA survey of 1999. Note that 42% of DMA members are currently accepting online orders.

Direct Marketing Companies Making a Profit on Online Transactions, 1999 & 2000



Source: Direct Marketing Association 2000

It is worth noting that there is some debate about the definition and, size of direct mail expenditures in the US. McCann-Erickson's ad guru, Robert Coen, and Jack Myers of the Myers Group, for example, estimated 1998 direct mail expenditures at roughly $40 billion. Others using broader definitions put the figure as high as $1.1 trillion.

The DMA applies "a broad media approach in defining overall direct marketing: any direct communication to a consumer or business recipient that is designed to generate a response in the form of a direct order, a request for further information that may eventually lead to a direct order (lead generation) and/or a visit to a store or other place of business for purchase of a specific product(s) or service(s)."

Complicating any projections, however, is the blurring of lines between direct marketing and internet marketing. We continue to believe that marketing campaigns will increasingly feature seamless integration of web-based and traditional direct mail vehicles.

By the year 2005, when the DMA expects direct response across all online and offline media to reach nearly $270 billion, internet-based advertising will be only $30.0 billion in that year.

Nonetheless, online advertising will have grown from 1% of direct marketing advertising to nearly 9% in seven years.

US Direct Marketing Expenditures, 1998-2001 & 2005 (in billions)

	1998	1999	2000	2001	2005
B2B	$83.2	$89.9	$98.6	$106.9	$145.9
B2C	$81.4	$86.8	$93	$98.3	$123.9
Total	**$164.6**	**$176.5**	**$191.6**	**$205.2**	**$269.7**

Source: Direct Marketing Association, 2000

The DMA expects consumer-directed interactive marketing expenditures to increase from $1.0 billion in 1999 to $8.6 billion in 2004.

US Interactive Direct Marketing Expenditures, 1999-2001 & 2005 (in millions)

	1999	2000	2001	2005
B2B	$1,017	$1,732	$2,812	$8,642
B2C	$607	$1,035	$1,687	$5,207
Total	**$1,624**	**$2,766**	**$4,498**	**$13,849**

Source: Direct Marketing Association, 2000

It is now evident that direct marketing companies are increasingly using the web to improve the bottom line of their businesses. They are among the first companies to actually make money on the internet as well as also being the companies that have in place a complete infrastructure to fulfill orders efficiently, provide customer service and database marketing.

While the dot-coms may have been first out of the gate, this is a clear portent of the value that can be found when established companies leverage their business models with web advertising and marketing initiatives.

I. New Media: Enhanced TV and Interactive TV

The subject of new media continues to be dominated by TV-internet hybrids: enhanced TV, interactive TV, web TV, personal video recorders, etc. Yet for all the growth in this area opinion continues to be deeply divided on the future of ITV. Certainly the power of such a medium would be profound – if anyone ever figures out exactly what is should be, gets it to work and persuades people that they want it.

Some of these devices and technologies – enhanced and interactive TV – for example, have the potential to offer many new and exciting advertising opportunities. They are able to store information on users such as age, gender, geographic location, as well as viewing habits. Others, such as personal video recorders, hold up the specter that consumers may be able to avoid watching commercials altogether.

"ITV is the most fundamental change to TV since its inception."

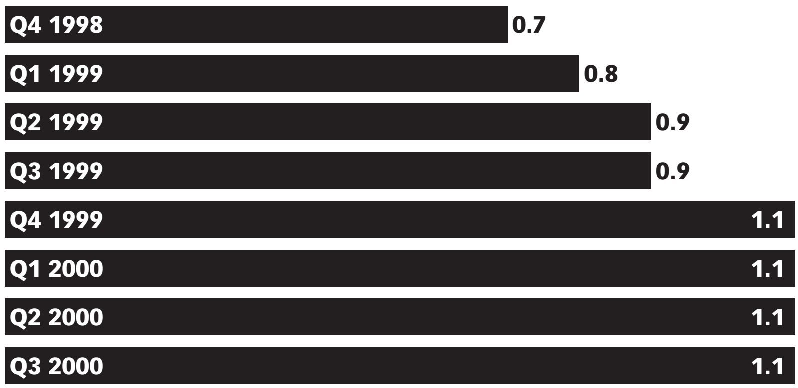
— Hal Krisbergh, CEO, WorldGate Communications

"More people have lost money on ITV, and nobody has made money."

– Barry Schuler, Manager, America Online -ITV

Despite the hype, demand for internet TV, the most common version of TV/internet convergence, is flat through the end of 2000.

US Internet TV Subscribers, Q4 1998 - Q3 2000 (in millions)



Note: Includes online services only
Source: Telecommunications Reports International, 2000

The penetration of Interactive TV is progressing slowly. Forecasts by Jupiter Research, Strategis Group and Yankee Group agree that less than 30 million US households will have interactive TV by 2004.

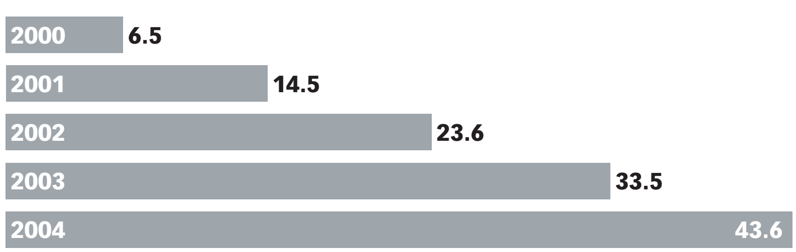
Comparative Estimates: US Interactive TV Households, 2000-2004 (in millions)

	2000	2001	2002	2003	2004
Jupiter Research	0.4	1.7	6.2	16.5	29.4
Strategis Group	1.0	5.2	11.6	19.9	29.8
Yankee Group	1.4	5.0	11.0	18.0	24.0

Note: Excludes online platforms such as web TV and AOL TV; includes digital cable and personal video recording
Source: various, as noted, 2001

By including more devices and services into its forecast, IDC projects penetration into over 43 million households by 2004

US Interactive TV Households, 2000-2004 (in millions)

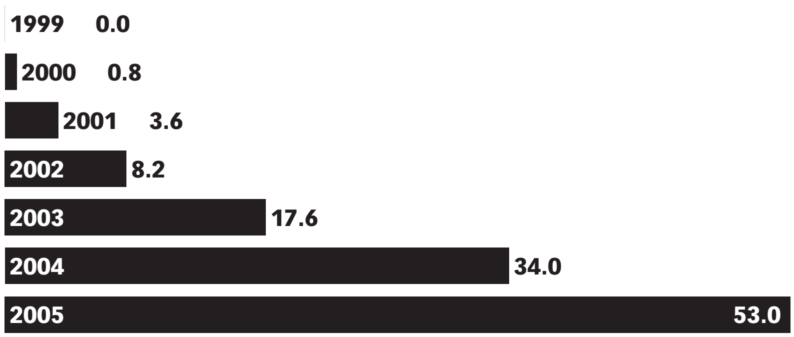


Note: Includes digital cable, personal video recording, direct broadcast satellite and internet access services such as Web TV and AOL TV
Source: International Data Corp. (IDC), 2001

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

Most optimistic of all about new devices is Forrester, which believes sales of personal video recorders will reach 53 million households by 2005.

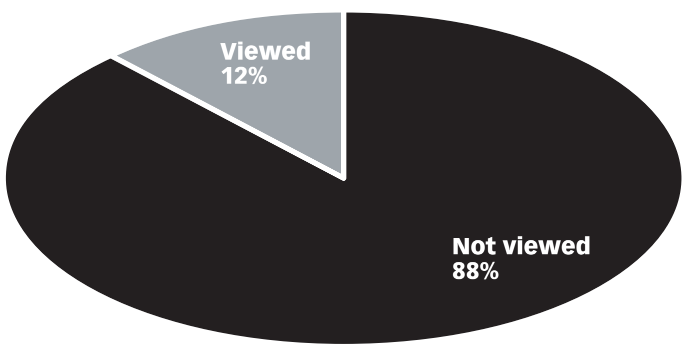
US Unit Sales of Personal Video Recorders, 1999-2005 (in millions)



Source: Forrester Research, 2000

Bullish projections for PVR penetration may turn out to be advertisers' worst nightmare. The New York Times Magazine recently reported that an astounding 88% of all ads went unwatched when viewers recorded programs using TiVo and ReplayTV.

% of Ads Viewed by US Personal Video Recorder Users, 2000



Source: New York Times Magazine, 2000

Market definitions in the ITV area are also not fully formed. The distinctions between ITV, WebTV and enhanced broadcast remain blurry. However, Forrester divides ITV into two segments, Enhanced Broadcast and Web on TV. Enhanced broadcast will eventually dominate, according to Forrester.

Web on TV is the less interesting use of a TV to replace the PC as an internet device, but without necessarily adding broadband or additional functionality.

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

Nonetheless, enhanced TV revenues from advertising are projected by Forrester to reach nearly $6.2 billion in 2004, making up over 60% of total revenues generated by this new medium.

US Enhanced Broadcast TV Expenditures, 1999-2004 (in millions)

Revenue source	1999	2000	2001	2002	2003	2004
Advertising	$1	$15	$216	$1,188	$3,429	$6,177
eCommerce	$0	$52	$233	$1,233	$2,490	$3,838
Subscriptions	$0	$2	$10	$31	$47	$72
Total	**$1**	**$69**	**$459**	**$2,452**	**$5,966**	**$10,087**

Source: Forrester Research, 1999

Web on TV revenues are divided much more equally.

US Web on TV Expenditures, 1999-2004 (in millions)

Revenue source	1999	2000	2001	2002	2003	2004
Advertising	$93	$197	$319	$617	$1,041	$1,546
eCommerce	$168	$569	$1,328	$1,406	$1,581	$1,916
Subcriptions	$403	$820	$1,403	$1,519	$1,674	$1,840
Total	**$664**	**$1,586**	**$3,050**	**$3,542**	**$4,296**	**$5,302**

Source: Forrester Research, 1999

Total interactive TV revenue (the sum of the two segments) is forecast to account for a not-insubstantial $7.7 billion in ad revenues and $15.4 billion in total by 2004.

US Interactive TV Expenditures, 1999-2004 (in millions)

Revenue source	1999	2000	2001	2002	2003	2004
Advertising	$94	$212	$535	$1,805	$4,470	$7,723
eCommerce	$168	$621	$1,561	$2,639	$4,071	$5,754
Subscriptions	$403	$822	$1,413	$1,550	$1,721	$1,912
Total	**$665**	**$1,655**	**$3,509**	**$5,994**	**$10,262**	**$15,389**

Source: Forrester Research, 1999

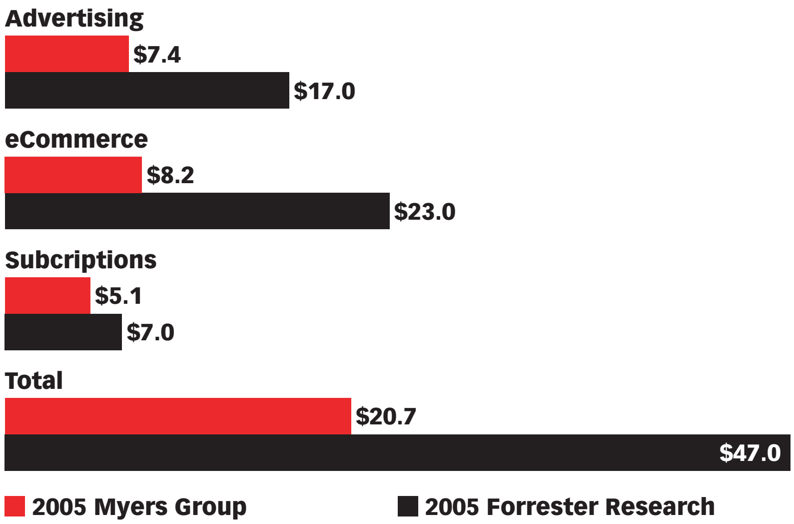
"Over time interactive television would build up such accurate profiles of individuals from their viewing and buying habits that every advertisement would be individually tailored to meet their wants and needs."

— Prof. Nicholas Negroponte, Media Lab, MIT

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

There is a wide divergence between the estimates of ITV revenues in 2005. Forrester projects that ITV revenues will reach 47 billion, while the Myers Group estimates a far lower $21 billion.

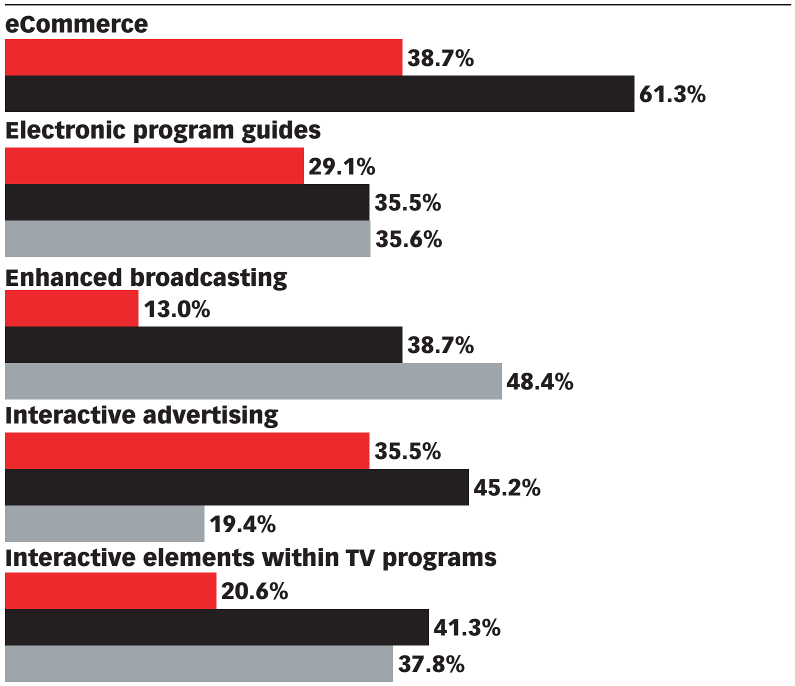
Comparative Estimates: US Interactive TV Expenditures, 2005 (in millions)



Source: various, as noted, 2000

Media executives see ITV as having varying levels of potential in a number of areas. eCommerce topped the list with interactive advertising not too far behind.

How US Media Executives View iTV Potential, 2000



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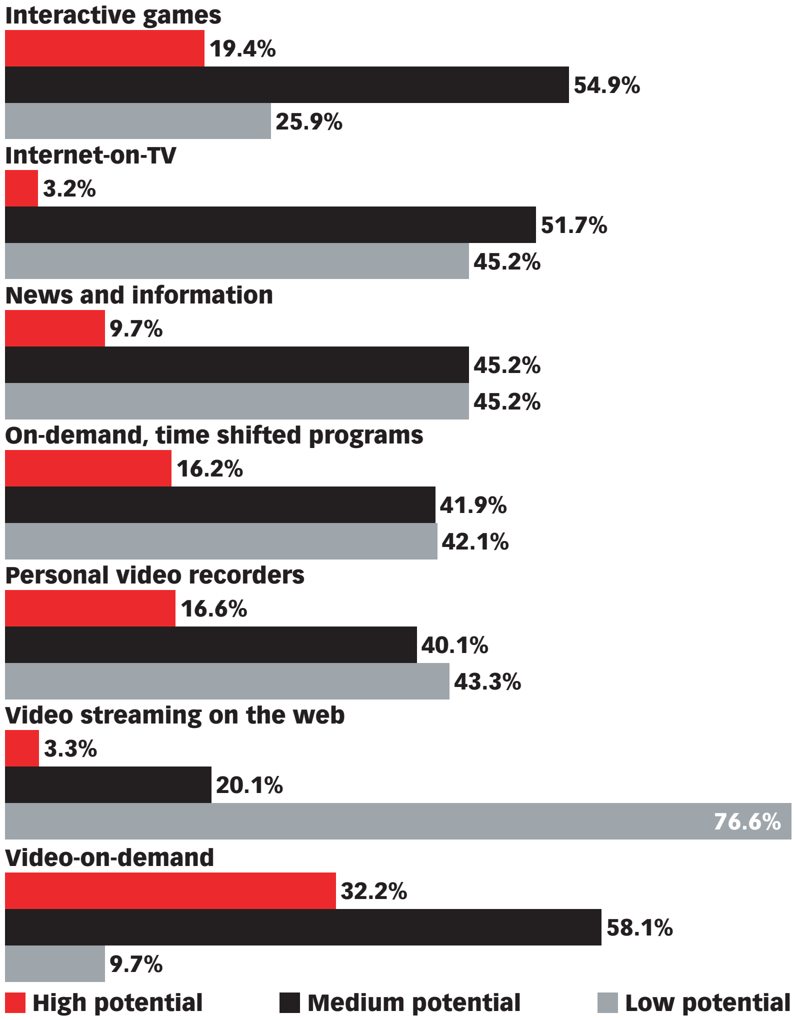


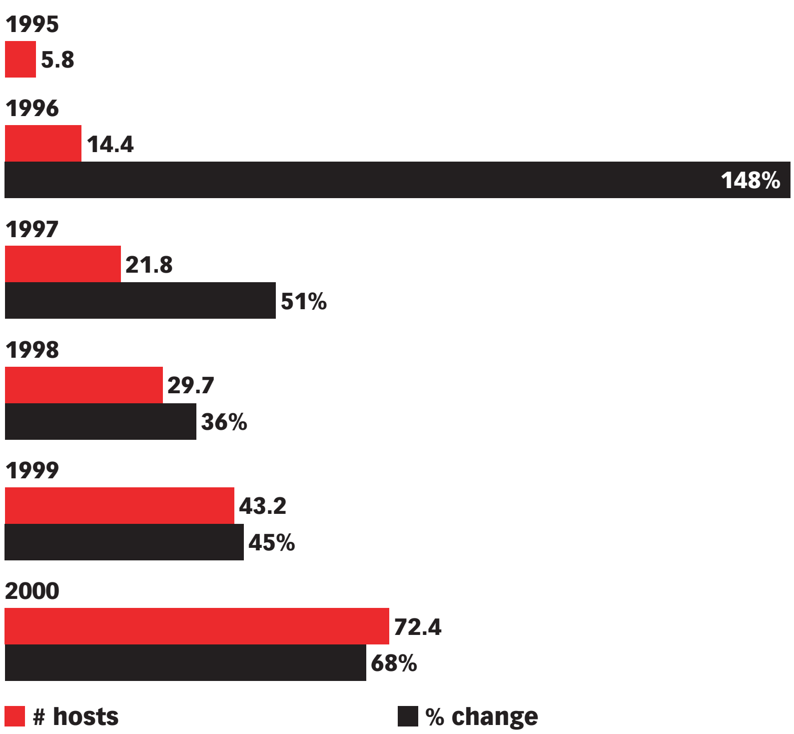
Source: Myers Group; Interactive Television Outlook, Feb. 2000

A. Universe of Websites

The global competition for web ad dollars is fierce. Content sites seeking a piece of the action, however, face a daunting task. There are a more competitors than they can possibly even count. How many websites are there? How many are seeking advertising? And, perhaps most importantly, how many are earning revenues through the sale of ad space?

The Internet Software Consortium's crawl of the web found the number of internet domain hosts, or live IP addresses at any one time, reached over 72 million in 2000, and increase of 68% over the previous year. Interestingly, over the past two years, the rate of growth has increased, reversing a trend of declining growth rates for the previous three years.

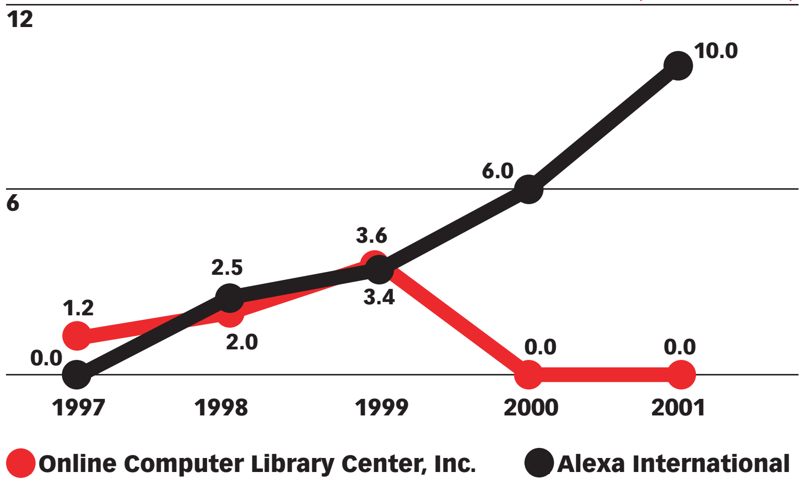
Hosts in the US Domain Name System, 1995-2000 (in millions)



Source: Internet Software Consortium, 2000

Based on aggregated data from the Online Computer Library Center (OCLC) and Alexa International, the total universe of websites worldwide grew from 3.6 million in 1999 to 6 million in 2000 and will grow to at least 10 million in 2001.

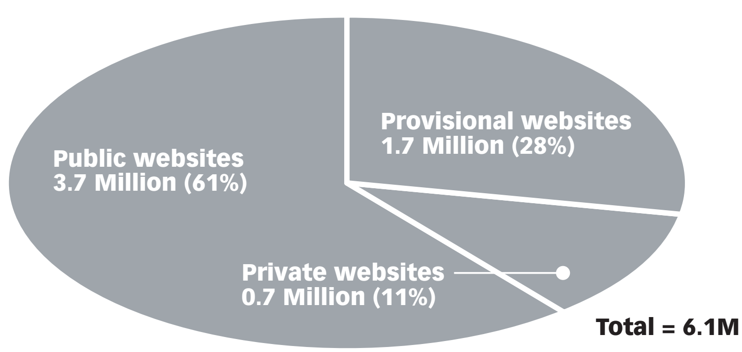
Number of Websites Worldwide, 1997-2001 (in millons)



Source: eMarketer, 2001; various, as noted, 2000

Of the 3.6 million sites estimated identified by OCLC in 1999, 1 million were just placeholders, or "provisional web sites" that are transitory or in an unfinished state and offer only content that "from a general perspective, is meaningless or trivial." On the other hand, 2.2 million were identified as having publicly accessible content.

US Websites, by Category, 2000

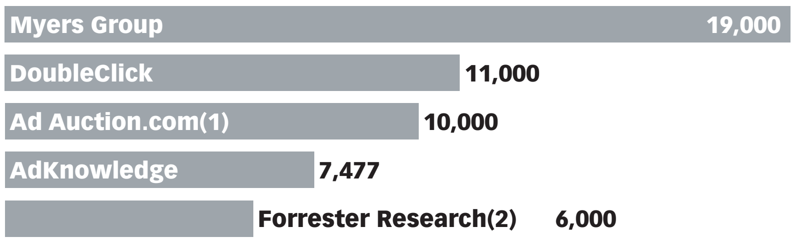


Source: Online Computer Library Center, Inc. (OCLC), 2000

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

Calculating the number of ad-supported websites is problematic given that different sources use different definitions. Some researchers count any website receiving any advertising dollars, even negligible amounts. Others have an even looser definition that includes bartered ad dollars where no money exchanges hands. Still others, such as AdKnowledge define the universe of ad-supported websites by the size of their client database (i.e., if it's not my client, the site doesn't get counted).

Comparative Estimates: US Ad-Supported Websites, 2000



Note: 1) Based on an estimate from AdAuction.com Senior Vice President Chad Roffers; 2) Based on a select group of top ad-supported sites
Source: eMarketer, 2001

Forrester Research predicts the number of ad-supported websites will grow from 2,000 in 1999 to over 6,000 by 2000 or 2001. However, the definition Forrester uses is representative of only larger, highly trafficked sites.

Another way to place online advertising into perspective is to look at the total number of pages on the web. According to NEC Research, in 1999, out of over 800 million pages, 83% of them contain some form of commercial content (although not necessarily paid-for advertising).

eMarketer estimates that the percentage of commercial content has dropped to about 70%. However, given the rapid growth of the number of pages of information on the web, the number of pages of commercial content has still grown to nearly 5 billion.

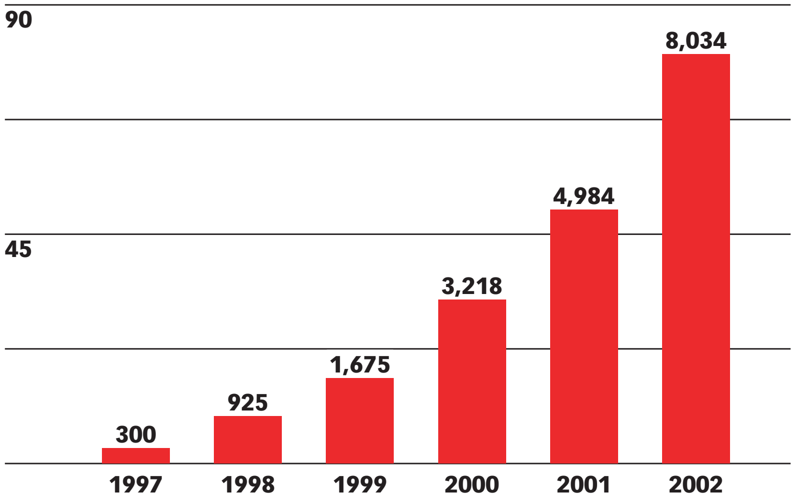
The Publicly Indexed Internet, Feb. 2001

Pages of information (billions)	7.1
Amount of data (terrabytes)	132
Number or images (millions)	1,586
Pages containing some form of commercial content (not necessarily ads)	70%
Pages of commercial content (millions)	4.94

Source: NEC Research Institute, 1999

According to IDC, by 2002, there will be more web pages in the world than people (6 billion as of October 1999).

Webpages, 1997-2002 (in millions)



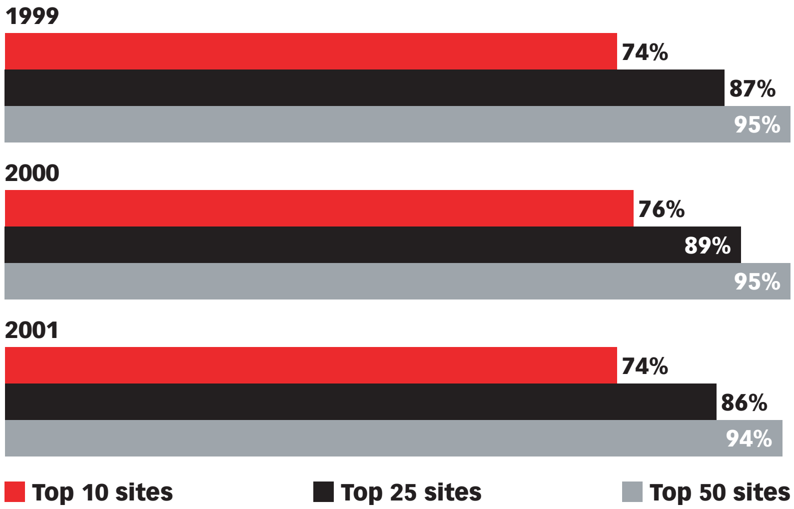
Source: International Data Corp. (IDC), 2000

B. Top eAdvertising Publishers

While the number of websites receiving online ad revenues continues to grow, the percentage share of ad dollars being spent at the top 10, 25 and 50 publisher sites has remained consistently at very high levels.

In 2000, the top 10 sites accounted for 76% of dollars earned by selling web advertising. During 2001, eMarketer expects it to slip slightly to 74%, still nearly three-fourths of total ad dollars. The top 25 web site publishers received 89% of the pie in 2000, and a modest decline to 86% of web ad spending is expected throughout 2001. The top 50 web publishers will continue to receive 94% of all web ad revenues spent by advertisers, down from 95% in 2000.

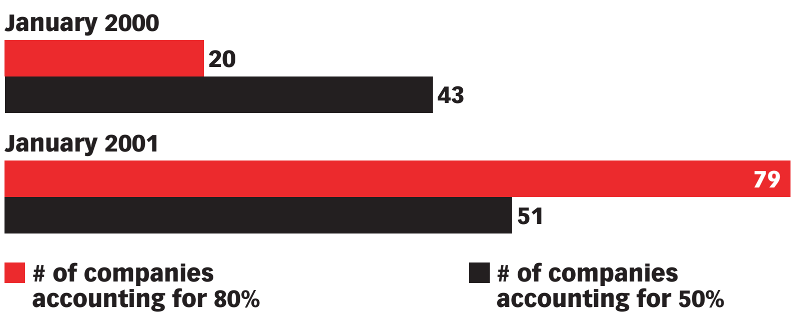
US eAdvertising Expenditures, by Publisher Size, 1999-2001



Source: eMarketer, 2001

According to AdRelevance, the number of websites sharing the advertising pie has increased steadily. Its study found that 20 websites accounted for 80% of revenue in January 2000, and that number grew to 79 by January 2001.

US Websites That Account for 80% and 50% of Ad Expenditures, Jan. 2000 & Jan. 2001



Source: AdRelevance, 2001

In 2001, the souring economy, and weakened online ad market in particular, will inhibit new players from entering the market; meanwhile, the larger, entrenched web publishers like Yahoo! will redouble their efforts to attract the limited pool of ad dollars.

Eventually, as the web advertising market matures, and increasing numbers of more specialized vertical sites with strong content offerings come to the market, eMarketer expects the concentration of ad dollars earned will begin to flatten out. We expect this will occur starting in 2002.

Quarterly data from the IAB already shows a slight leveling off of web ad dollar concentration, particularly among the top ten. However, while the share of the top ten sites continued to decline in 2000, the top 25 sites held steady and the top 50 sites actually increased their share to 95%.

US eAdvertising Expenditures, by Site Publisher, Q1 1998-Q3 2000

Year	Top 10 sites	Top 25 sites	Top 50 sites
Q1 1998	64%	75%	79%
Q2 1998	67%	80%	85%
Q3 1998	70%	84%	91%
Q4 1998	71%	86%	92%
Q1 1999	75%	88%	93%
Q2 1999	75%	86%	90%
Q3 1999	72%	84%	87%
Q4 1999	70%	85%	94%
Q1 2000	69%	82%	91%
Q2 2000	71%	83%	91%
Q3 2000	68%	84%	95%

Note: Refers to website publishers with advertising revenues
Source: Internet Advertising Bureau (IAB), 1998–2000

Search/Portal sites capture the biggest portion of web advertising dollars, followed by technology companies, and business and finance. Search/portal sites grew their shares in the third quarter of 1999.

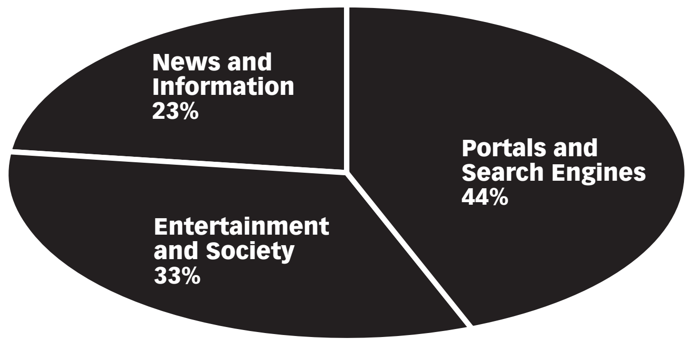
US eAdvertising Expenditures, by Content Genre, Q1 1999-Q3 2000

Content genre	Q1 1999	Q2 1999	Q3 1999	Q4 1999	Q1 2000	Q2 2000
Search/portals	34%	35%	41%	39%	40%	36%
Technology	22%	21%	17%	15%	11%	11%
Business/Finance	21%	18%	16%	15%	15%	15%
News/Information	5%	8%	8%	9%	9%	10%
Sports	8%	5%	2%	2%	2%	2%
Entertainment	4%	3%	4%	5%	4%	4%
Women	3%	3%	2%	2%	2%	1%
Community	3%	2%	2%	–	–	–
Classified	–	–	7%	9%	8%	12%
Other	0%	5%	1%	4%	9%	9%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Internet Advertising Bureau (IAB), 2000

AdRelevance categorizes web sites into three genres, thus yielding a somewhat different view of the web site landscape. Its study found that Portals and Search Engines controlled 44% of all impressions in Q4 2000, followed by Entertainment & Society at 33%, and News & Information at 23%

US eAdvertising Impressions, by Content Genre, Q4 2000



Source: AdRelevance, 2001

AdRelevance also breaks these major categories into smaller groups. Pure portal sites host 38% of all online ads, while Telecom and Internet Telephony is a distant second place at 6%. The remainder is divided up among 24 categories, with the leading sub-genres being General News at 6%, Search Engines, Incentive sites and Shopping and Auction sites at 5%, followed by Travel, Maps and Local and Sports and Recreation at 4%.

Top 10 US Web Properties, by Audience Reach, Jan. 2001

Property	Unique audience (in millions)	Reach %	Time spent per person per month
1. AOL Time Warner	64.2	63.4%	0:38:07
2. Yahoo!	54.8	54.0%	0:59:49
3. MSN	44.5	43.9%	0:52:25
4. Microsoft	24.7	24.4%	0:08:28
5. Lycos Network	24.1	23.8%	0:10:36
6. Excite@Home	23.1	22.8%	0:24:13
7. Walt Disney Internet Group	17.6	17.4%	0:21:18
8. Amazon	15.3	15.1%	0:12:00
9. eBay	15.2	15.0%	1:18:32
10. About The Human Internet	14.5	14.3%	0:08:58

Source: Nielsen//NetRatings, 2001

AOL and Yahoo! were also at the top of the list in December 2000.

Top 10 US Websites, by Expenditures and Impressions, Dec. 2000 (in millions)

Rank	Site	Revenue	Impressions
1	aol.com	$100.9	4,036.6
2	yahoo.com	$59.4	1,380.3
3	ebay.com	$39.0	2,603.1
4	freelotto.com	$37.1	927.0
5	msn.com	$36.7	1,047.2
6	espn.go.com	$32.2	1,191.1
7	ragingbull.altavista.com	$20.6	822.0
8	shopping.Yahoo!.com	$17.6	1,176.4
9	nfl.com	$17.1	526.6
10	webcrawler.com	$16.3	677.7
	Top 10 total	**$376.8**	**14,388.0**

Source: Competitive Media Reporting (CMR), 2001

AOL led the way in unique visitors at the end of 2000 with over 81 million. Yahoo! was second with nearly 61 million unique visitors. (Reach is defined as the percentage of total domestic web users who visit a given web property in a given month.)

Unique Visitors at Top 10 US Digital Media/Web Properties, Dec. 2000 (in millions)

Rank	Site	Unique visitors
1	AOL network (proprietary and world wide web)	81.1
2	Yahoo!	60.6
3	Microsoft sites	54.6
4	Excite network	53.8
5	Lycos	30.8
6	About the Human Internet	30.0
7	Amazon	21.3
8	Walt Disney Internet Group	21.1
9	CNET Networks	20.5
10	eBay	20.0

Source: Media Metrix, 2001

C. Portals: Crossroads in the Web

The giants of web publishing today are search engines, or "portals," which have traditionally captured more than their fare share of online ad dollars.

But even portals are not immune to the changing winds of the web, and when seemingly invincible Yahoo!'s stock was hammered in March 2001, a new chapter in online advertising had begun. For years Yahoo! had struggled to diversify its revenue streams and get beyond its dependence on ad dollars. And now that online advertising is in a slump, they may well succeed in moving into e-commerce or subscription models.

Throughout the economy, the internet is forcing business models to be revamped, and this is no less true of the new economy. Rather than risk becoming casualties of the new era, portals have been engaged in a continuous struggle to fend off the challenge from more focused sites, as well those making "real" money through e-commerce.

The challengers have taken many forms: corporate sites, government sites, special interest sites and financial sites, just about everything you could imagine. The drill is the same: get the web surfer to use you as their home base for adventures in cyberspace.

A recent 2000 Roper Starch survey of online users found that 60% report using a search engine more than one hour per week. That's one hour out of an estimated eight hours the average internet user spends online in a given week. And although 60% of user sessions include a visit to a portal, only 6% of websites are accessed through a portal's search engine, according to Booz-Allen & Hamilton (Feb. 2001).

Data from Mercer Management indicates that consumers - particularly experienced ones - seem to be bypassing portals in favor of more targeted e-commerce sites.

US Consumers By-Passing Portals for eCommerce Sites, 2000

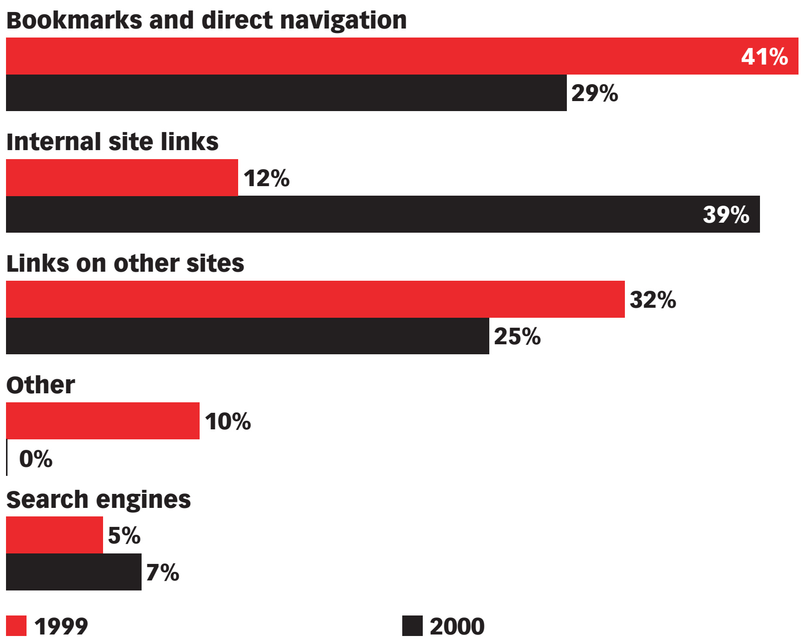
	Under 1 year online	2-plus years online
Auctions and classified ads	29.0%	45.7%
Information on products and services	35.5%	41.3%
Investment and trading	34.8%	60.9%
Online shopping	46.8%	53.2%

Source: Mercer Management, 2000

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

According to this study by MyComputer.com, internet users are getting more sophisticated in their search quests, using internal site links and bookmarks far more than search engines to get where they're going.

US Site Page Visits, by Origin, 1999 & 2000



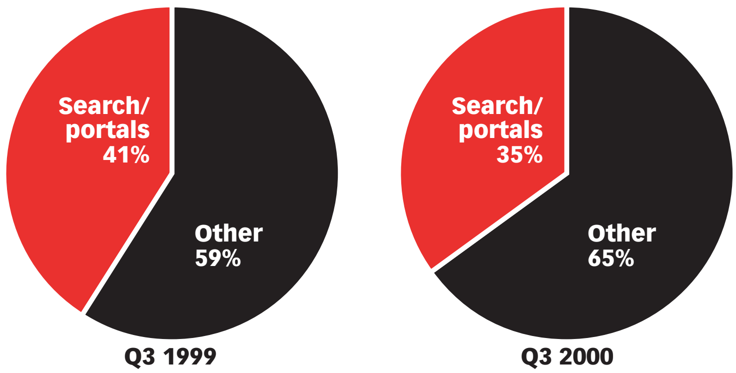
Note: Based on real-time analysis of internet users
Source: MyComputer.com, 2000

By book-marking favorite sites, web surfers create direct paths to their key interests.

An increasing portion of web advertising dollars will start to gravitate away from portals and towards highly targeted "vertical" websites, as well as strongly branded news and information sites focused on a particular topical area or target audience.

IAB quarterly data placed Search Engines and Portals at 35% of total advertising dollars in Q3 1998, and after some fluctuation, it was the same in Q3 2000.

US eAdvertising Expenditures, by Content Genre, Q3 1999 and Q3 2000



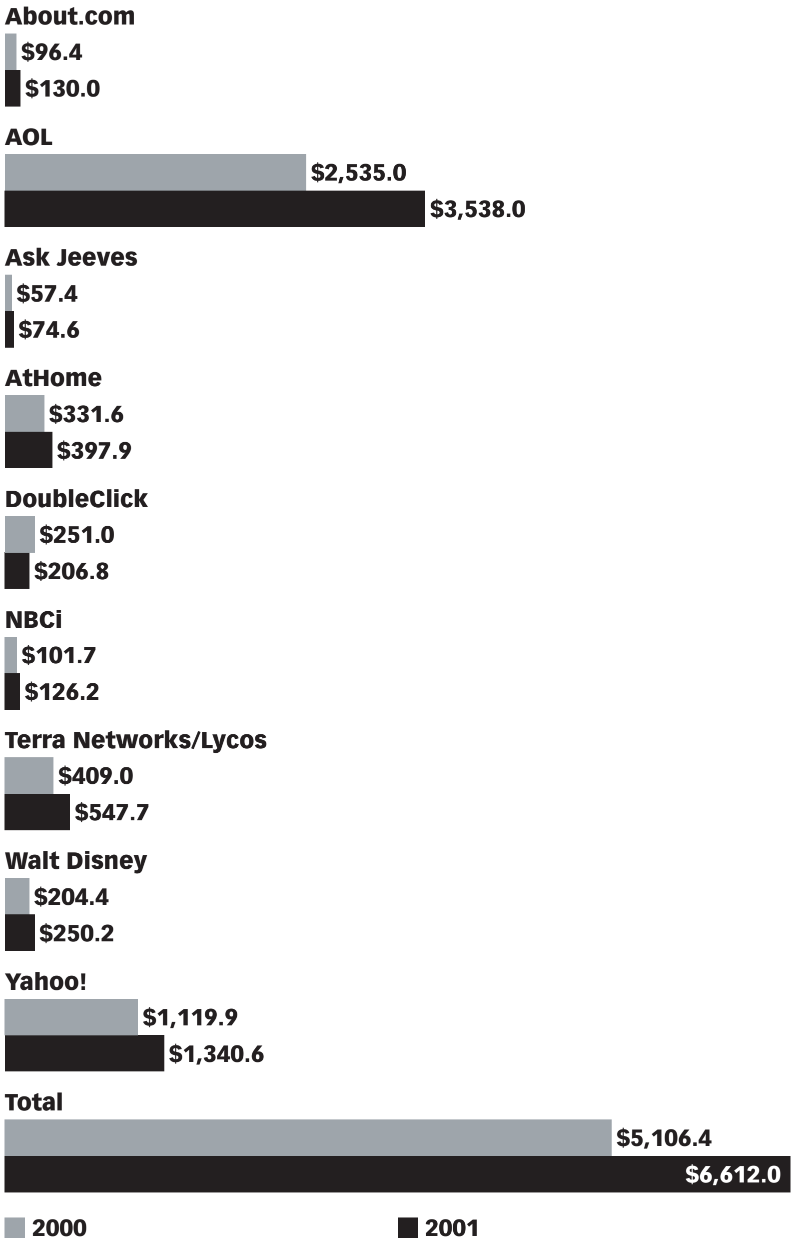
Source: IAB, 2000

Forrester Research has said it well: "Companies love the visibility that AOL and Yahoo! deliver, but they need a much higher customer acquisition rate...and as a result will shift spending to 'vertical portals and affiliates'...over the next five years."

Forrester also forecast that the big three - AOL, Yahoo! and MSN - would continue to capture upwards of 40% of web ad dollars, leaving all other broad-based portals to share a measly 3% by 2004. Vertical portals will grow from 24% in 1999 to 32% by 2004.

Despite the predictions of doom and gloom, portals continue to dominate the division of revenues from web advertising. According to Wit SoundView, the top portals collected $5.1 billion in advertising revenue in 2000, and expect them to reach $6.6 billion in 2001. This amounts to growth of nearly 30%.

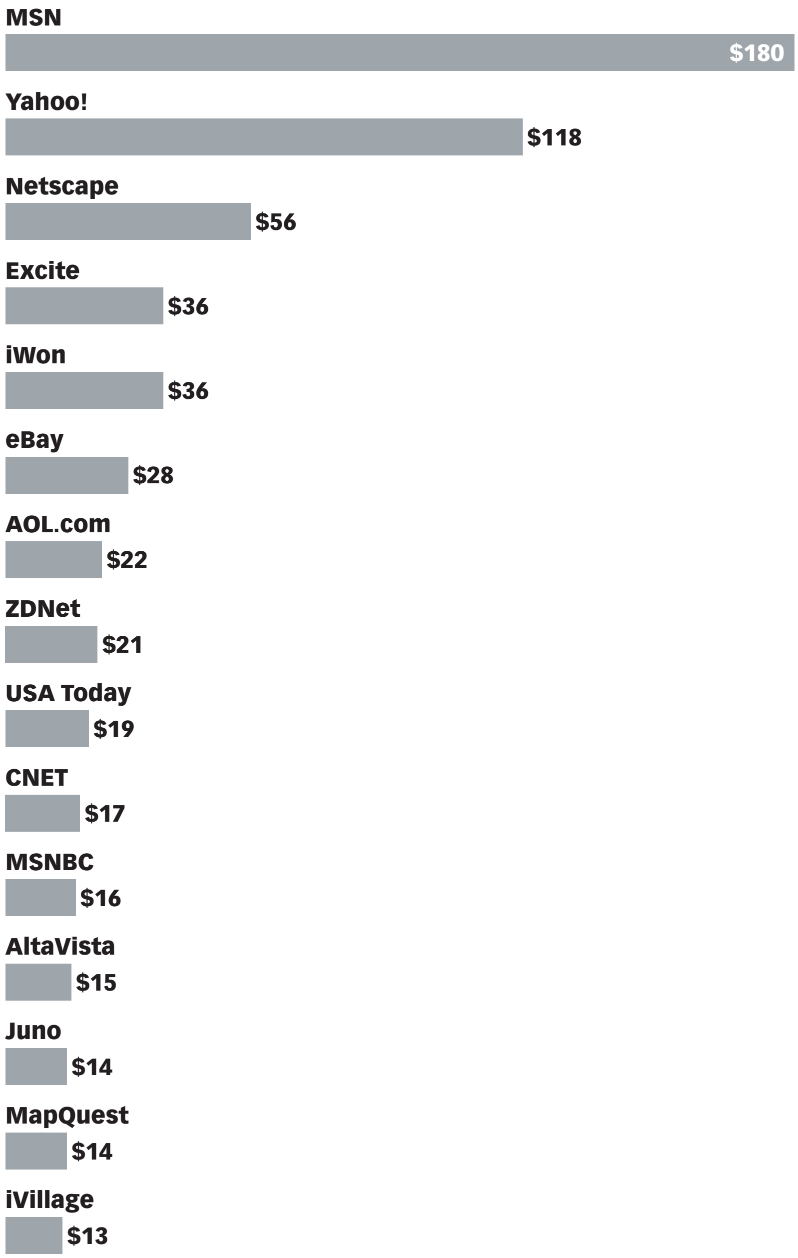
Internet Advertising Expenditures at Leading US Websites, 2000 & 2001 (in millions)



Source: Wit SoundView, 2001

Using ad revenues as a metric, the dominance of portals is clear.

Top US Websites, by Ad Revenues, Dec. 2000 (in millions)



Source: AdRelevance, 2001

By another measure, MSN appears to be a force to be reckoned with. AdRelevance data shows that MSN earns far more per advertiser than other portals, about $430k per advertiser in December 2000, compared to $105k per advertiser for Yahoo! and Netscape.

eAdvertising Expenditures per Advertiser at US Portals, Dec. 2000 (in thousands)

MSN	$430
Yahoo!	$105
Netscape	$105

Source: AdRelevance, 2000

Despite the tenacity of the portals in holding on to a substantial portion of internet eyeballs, pricing has weakened. As deals have come up for renewal in 2000, advertisers are able to negotiate much better terms than they had a year earlier.

"It used to be the $20 million, three-year deal. Now it's the $1 million to $2 million, one-year deal."
—*Anna Collins, Vice President of Media, Avenue A*

D. Unsold Ads (Where Web Ad Dollars Don't Go)

Ad spending increased from $1.7 billion in 1998 to $7.1 billion in 2000. However, the industry's potential is far from realized. On an aggregate basis, out of the vast inventory of potential ad space, three-fourths, or 74% goes unsold.

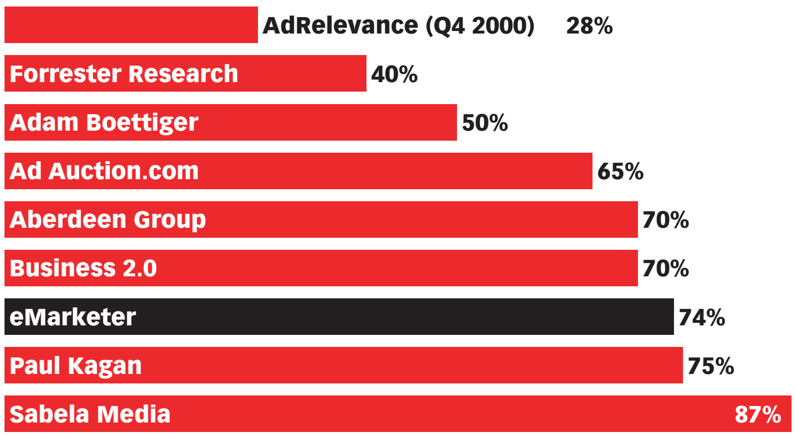
Available US eAdvertising Inventory That Goes Unsold, 1998-2000

1998	81%
1999	78%
2000	74%

Source: eMarketer, 2001

Estimates of unsold inventory range from 40% to over 80%. Relatively low estimates (like Forrester's) count mostly large websites, while higher estimates (such as Sabela Media) tend to include smaller sites.

Comparative Estimates: Available US eAdvertising Inventory That Goes Unsold, 2000-2001



Source: eMarketer, 2001; various, as noted, 2000

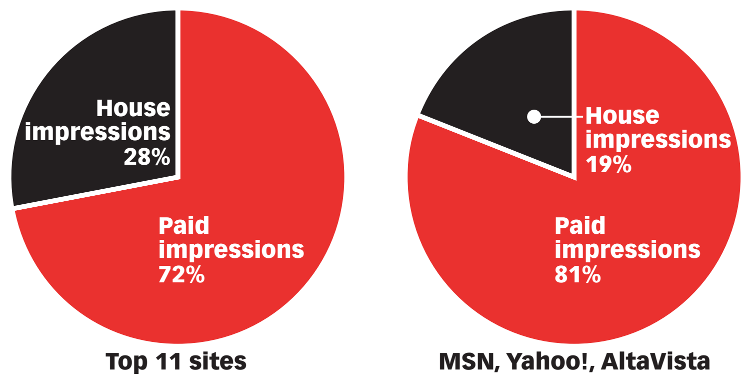
Leftover ad space is typically sold at bargain-basement prices, exerting downward pressure on CPMs. Why? Given the rapid growth of the internet, the number of pages available far outstrips the relative demand for online ads. Currently, there are over 11,000 US websites chasing ads and the number of sites seeking advertisers is growing every day.

The glut of advertising space also forces web publishers to hire third parties to sell their space. This reduces the profit per page, by incurring costs for third-party payments of about 35%-40% of revenues.

Another problem began to attract attention near the end of 2000, when researchers began to track the number of impressions that are used by websites to advertise themselves, i.e. "house advertising," which does not generate any revenue. Since high levels of house advertisements are indicative of unsold impressions, this metric has begun to receive some attention as an indicator of the financial health of web sites.

AdRelevance reported that 28% of impressions on the top eleven sites that accounted for half of all web ad revenue were house ads that ran during the fourth quarter of 2000, and the other 72% were paid impressions. Among three of the elite portals, the percentage of house impressions was lower, at 19%. On the other hand, the proportion of house ads is undoubtedly higher among websites not among the elite sites.

US Paid vs. House Advertisements, Q4 2000



Source: AdRelevance, 2001

However, the situation could be worse than these summary numbers indicate. Weekly numbers from the strong December 2000 holiday season, and the traditionally weak January that follows, indicate that the numbers worsen as the sample broadens. Numbers from nine of the top sites that are consistently among the largest ad hosts on the web, and who, according to AdRelevance, account for 50% of all ads hosted, indicate that the percentage of house ads (and therefore unsold inventory) could be much higher.

In December, the sites averages 26% house ads, but in January the number rose to 66%. Overall, the average over the six-week period that equally spanned the two months was 42%.

Paid vs. House Advertising Impressions of the Top US Sites, Dec. 2000 & Jan. 2001 (in millions)

Week of	House ads	Paid ads	Total	% of house
December 11	1.6	5.1	6.7	31%
December 18	1.5	5.7	7.2	26%
December 25	1.3	6.2	7.5	21%
January 1	2.7	3.6	6.3	75%
January 8	2.5	3.7	6.2	68%
January 15	2.3	4.2	6.5	55%
Average	**2.0**	**4.8**	**6.7**	**42%**

Note: Sites include AOL.com, AltaVista CNN.com, Excite, MSN, Netscape, Yahoo! eBay and iWon-sites
Source: AdRelevance, 2001

Perhaps in response to the inventory issue, DoubleClick recently announced a service that allows sites to swap unsold ad inventory with each other, allowing this space to be used productively to drive traffic. The service has a fee of $0.95 CPM, which compares to what MediaPost estimated as typical CPMs which “range from $2 to $20.”

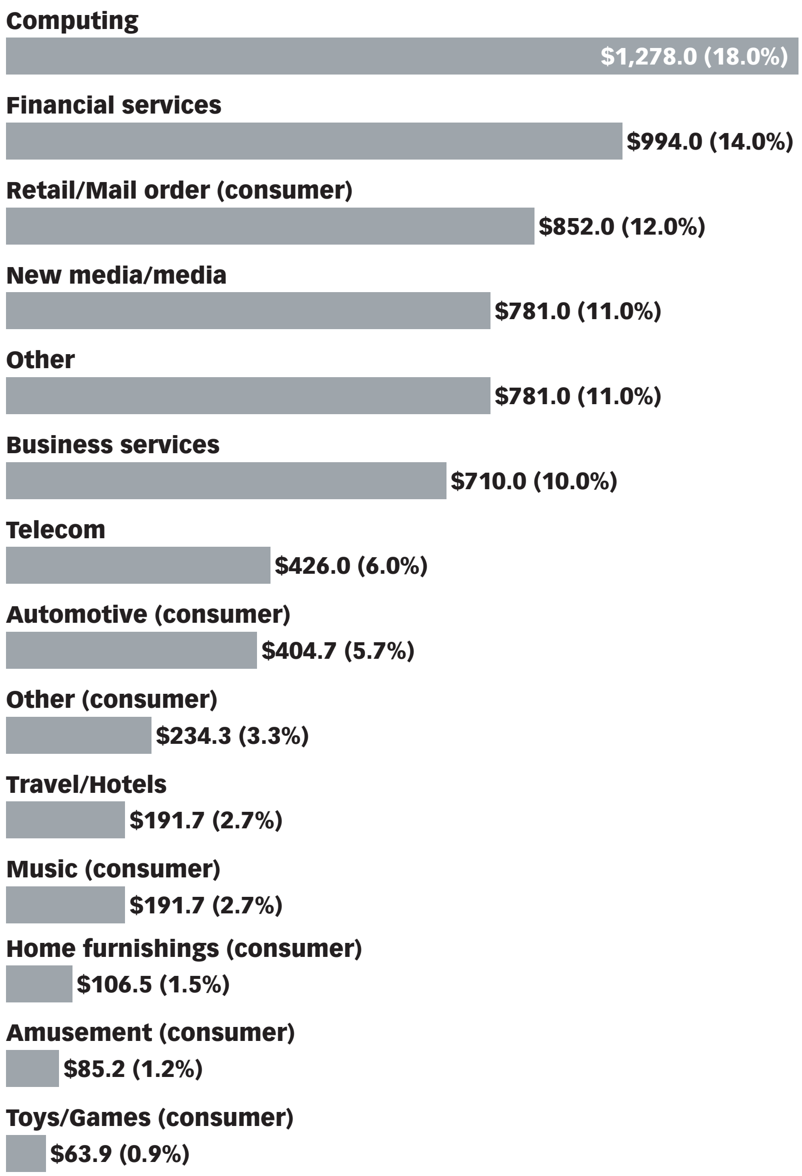
Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

A. Spending by Industry Category

As time has passed, it has become increasingly evident that web advertising is taking its place among major advertising media channels.

Today, the Computing segment at 18% is the biggest spender on web advertising, which amounts to nearly $1.3 billion. Financial services are next at 14% or nearly $1 billion. The retail/mail order sub-segment within the Consumer segment follows with $850 million and 12% of total spending of $7.1 billion in 2000.

US eAdvertising Expenditures, by Industry Category and Sub-Category, 2000 (in millions and as a % of total)



Source: Internet Advertising Bureau (IAB), 2000

Quarterly data from the IAB shows spending by consumer companies peaked in Q3 1999 rising to 32%, having grown from 27% of the total in 1997. The computing segment was among the early adapters of web advertising, but after a strong start at 27% of total in 1997, it slid to a low of 15% in the first quarter of 2000. However, it rebounded by the third quarter to 18% and now seems to have stabilized.

Financial services companies have also had their own ebb and flow. Their web advertising spending grew from 16% of the total in 1997 to 21% in the Q1 1999, but began to slide downward and appears to have not yet found a bottom. It was at 14% in Q3 2000.

Telecom companies were also early adapters of web advertising, and accounted for 14% of spending in 1997, when web advertising was in its infancy. The sector is now down to 6%, and with its recent economic woes, it is unlikely that there will be a rebound in the near future.

New Media (also known as "Media") has been a steady spender, moving up and down in a range of 7% to 12% of spending, and hitting 11% in the third quarter of 2000. Business services have grown steadily since the segment was first added to the IAB categories in 1998, and has grown from 3% to 10% since then.

US eAdvertising Expenditures, by Industry Category, 1999-2000 (as a % of total expenditures)

Category	Q1 1999	Q2 1999	Q3 1999	Q4 1999	Q1 2000	Q2 2000	Q3 2000
Business services	7%	9%	5%	7%	10%	10%	10%
Computing	20%	22%	21%	16%	15%	17%	18%
Consumer	27%	29%	32%	31%	31%	30%	30%
Financial services	21%	20%	19%	17%	15%	15%	14%
Media	8%	9%	4%	12%	12%	8%	11%
Telecom	7%	6%	6%	6%	6%	6%	6%
Other	10%	5%	13%	11%	11%	14%	11%
Total	100%	100%	100%	100%	100%	100%	100%

Note: Some values interpolated by eMarketer; IAB has expanded its set of categories over time, and has not published data in every category in every quarter. Also, the "Media" category was earlier known as "New Media"
Source: Internet Advertising Bureau (IAB), 1998-2000; eMarketer, 2001

According to the IAB, the consumer retail group is the biggest online advertising category. Within this sector, retail/mail order companies and automotive firms dominate with a combined share of 67% of total consumer ad dollars.

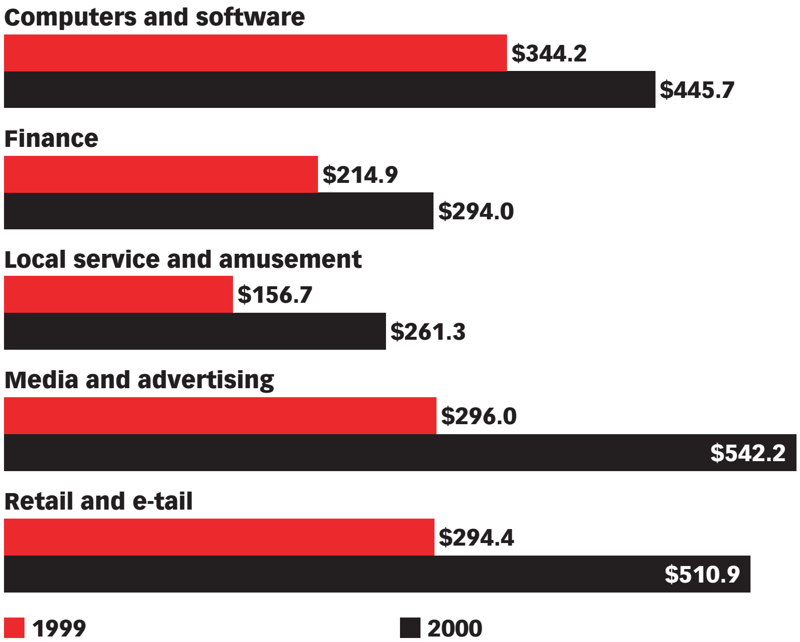
US eAdvertising Expenditures, by Major Consumer Category, 1999-2000 (as a % of total expenditures)

Category	Q1 1999	Q2 1999	Q3 1999	Q4 1999	Q1 2000	Q2 2000	Q3 2000
Amusement	5%	5%	4%	5%	4%	4%	4%
Automotive	16%	24%	19%	17%	19%	19%	19%
Home furnishing	–	–	1%	2%	3%	4%	5%
Music	8%	–	4%	4%	5%	7%	9%
Retail/Mail order	46%	44%	48%	44%	42%	41%	40%
Toys/games	5%	4%	4%	7%	4%	3%	3%
Travel/Hotels	11%	10%	8%	7%	8%	8%	9%
Other	9%	13%	12%	14%	15%	14%	11%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Note: Some values interpolated by eMarketer; IAB has expanded its set of categories over time, and has not published data in every category in every quarter
Source: Internet Advertising Bureau (IAB), 2000

According to CMR, the top-four industry segments ranked by spending on web advertising are retail and eTail, media and advertising, computers and software, and finance. It pointed out the irony that one of the major sources of fuel for the media economy is, perhaps unsurprisingly, the media itself, which had the largest growth of the top segments.

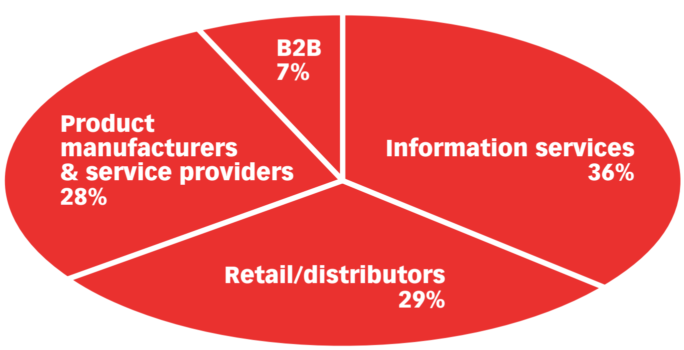
US eAdvertising Expenditures, by Industry Segment, 1999 & 2000



Source: Competitive Media Reporting (CMR), 2001

By AdRelevance's accounting, Information Services, consisting of over 5,000 companies (most of whom run content websites) placed the most ads in the fourth quarter of 2000, purchasing 36% of all impressions. Retail and distribution companies, such as Amazon.com and barnesandnoble.com, were second with 29% of impressions. Just hairs behind were product manufactures and service providers (5,600 companies) at 28%. Business-to-Business accounted for 7%.

US eAdvertising Expenditures, by Industry Segment, Q4 2000



Source: Competitive Media Reporting (CMR), 2001

US eAdvertising Expenditures, by Industry Segment, 2000 & 2005

	2000	2005
Automotive	6%	14%
Computer software and hardware	14%	9%
Consumer packaged goods	2%	7%
Financial services	22%	16%
Health	4%	6%
Media	16%	10%
Telecommunications	6%	5%
Travel	6%	7%
Other	24%	26%
Total online spending	100%	100%

Note: based on spending excluding classified listings
Source: Jupiter Research, 2000

Jupiter Research predicted the following year-to-year changes in spending by industry segments.

US eAdvertising Expenditures, by Industry Segment, 1999-2005

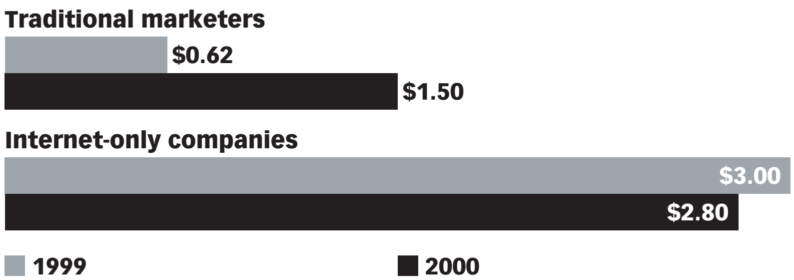
	1999	2000	2001	2002	2003	2004	2005
Automotive	6%	6%	8%	9%	10%	12%	14%
Computer software and hardware	19%	14%	14%	11%	10%	10%	9%
Consumer packaged goods	3%	2%	3%	5%	6%	6%	7%
Financial services	22%	22%	20%	18%	17%	16%	16%
Health	3%	4%	5%	5%	6%	5%	6%
Media	19%	16%	14%	13%	12%	11%	10%
Telecommunications	6%	6%	6%	6%	6%	5%	5%
Travel	6%	6%	6%	6%	6%	6%	7%
Other	22%	24%	27%	29%	28%	28%	26%
Total online spending	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Note: Based on spending excluding Classified Listings
Source: Jupiter Research, 2000

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

Forrester has projected that the average traditional marketing company will spend about $1.5 million on web advertising by 2003, compared with only $620,000 in 1999. For an average internet-only company, the change is from $3 million in 1999 to $2.8 million in 2003.

"Average Company" eAdvertising Expenditures in the US, 1999 & 2003 (in millions)



Source: Forrester Research, 2000

According to AdRelevance, even though the number of online ad impressions generated by large companies in the US increased in Q4 2000 from 30 million to 37 million, small and medium-sized firms actually had a higher median number of ad impressions purchased during the last quarter of 2000. This reflects the broadening base of web advertisers and the rapid movement of smaller companies into web advertising.

Median Ad Impressions Purchased, by US Company Size, Q4 2000 (in millions)

Source: AdRelevance, 2001

Defining large companies as those with yearly sales of $2 million or more, AdRelevance also reported that large dot-com companies also purchased the smallest amount of impressions when compared to their small and medium-sized counterparts.

AdRelevance defines medium-sized firms as those with sales between $300 million and $2 billion, and small firms as those with sales of $300 million or less. Median ad impressions purchased by medium-sized dot-com firms was 453 million Q4 2000, significantly more than either large or small companies. This rather surprising finding further illustrates the broadening of the base of internet advertisers and the key role of medium-sized companies in the growth of web advertising.

Median Ad Impressions Purchased by US Dot-Coms, Ranked by Company Size, Q4 2000 (in millions)

Source: AdRelevance, 2001

The rapid expansion of retail on the web can be seen in numbers released by Jupiter Media Metrix, which showed that the number of retail companies advertising on the web nearly tripled between 1999 and 2000.

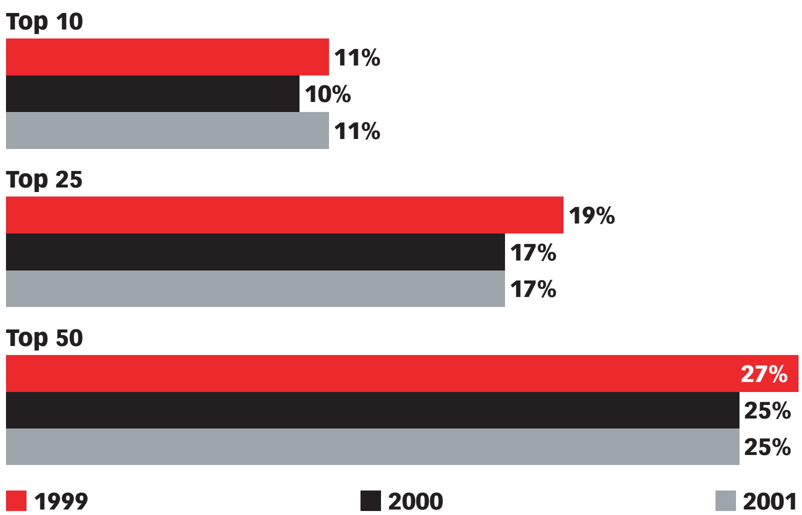
US Retail Companies Advertising on the Internet, Dec. 1999 & Dec. 2000

Source: Jupiter Media Metrix, AdRelevance, 2001

B. Company Spending

Research indicates that spending among web advertisers is relatively spread out versus the heavier concentration levels seen with web publishers. In 1999, the top ten advertisers spent 11% of ad dollars, while the top 25 spent 19% and the top 50 spent 27%. In 2001, eMarketer expects the proportion spent by the top ten advertisers to drop slightly to 9% of web ad dollars, while the top 25 will spend 16% and the top 50 will spend 24%.

Ad Dollar Concentration among Top US eAdvertisers, 1999–2001



Source: eMarketer, 2001

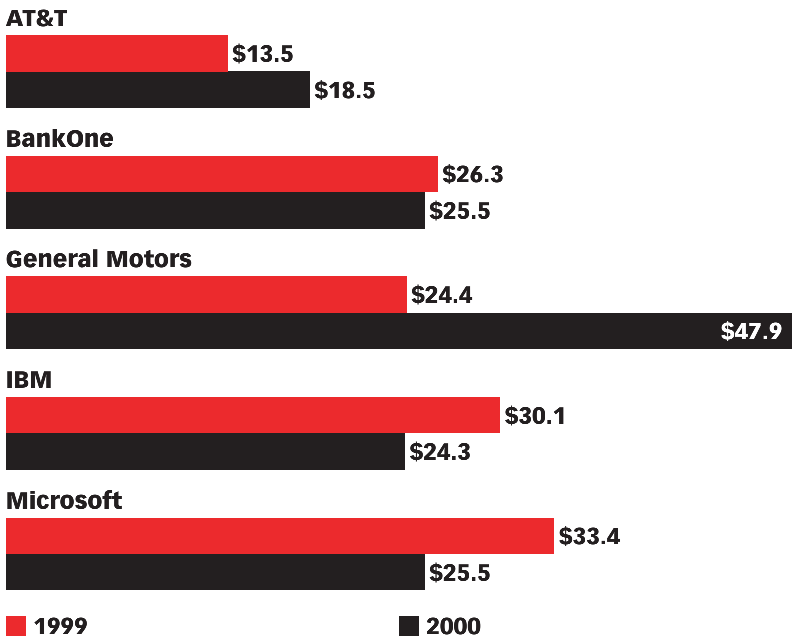
According to AdRelevance, in January 2001, only 51 companies accounted for 50% of web ad spending. While the number was up from the 43 companies that did the same in January 2000, it is down from the 80 companies that accounted for half of ad spending in December. The decline is primarily due to a seasonal effect, given the unique dynamics of the holiday retailing season.

Companies That Account for 50% of US Ad Expenditures, Jan. 2000 & Jan. 2001

Source: AdRelevance, 2001

Competitive Media Reporting listed the top "parent" company internet advertisers in 1999 and 2000. "Parent" companies are companies that advertise multiple brand names or products.

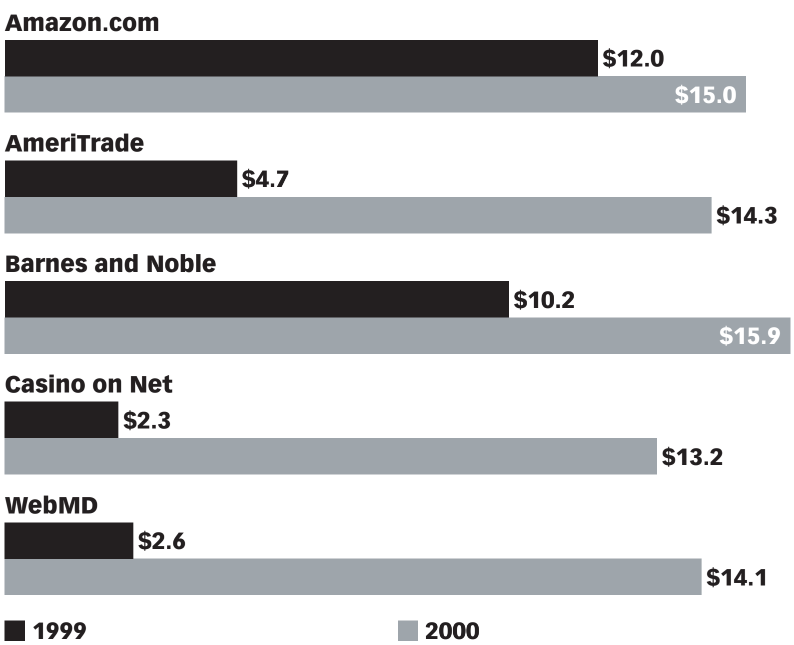
US Parent Company Internet Advertisers, by Spending, 1999 & 2000



Source: Competitive Media Reporting (CMR), 2001

Cutting the data another way, CMR identified the top brand internet advertiser on the web.

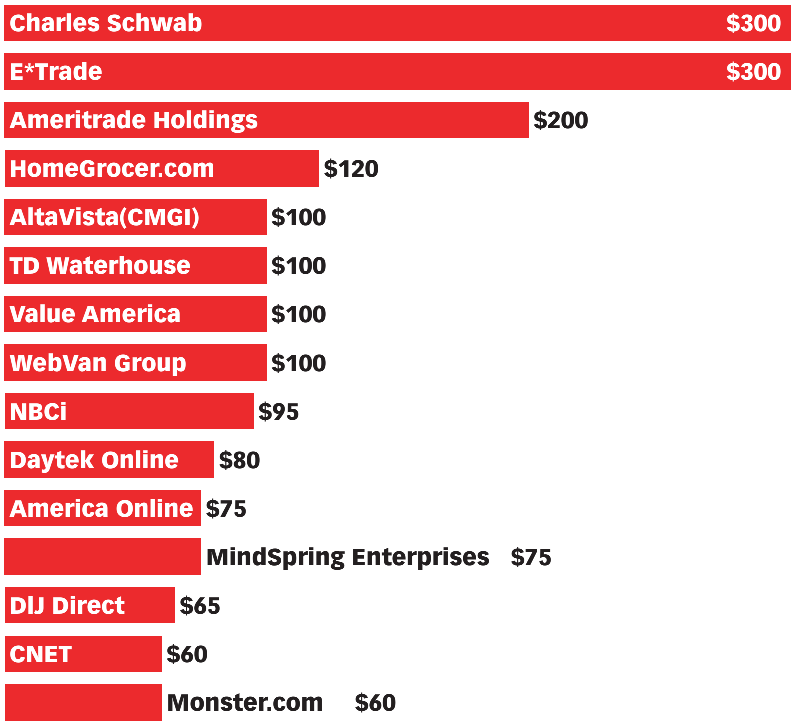
US Brand Internet Advertisers, by Spending, 1999 & 2000 (in millions)



Source: Competitive Media Reporting (CMR), 2001

Donaldson, Lufkin & Jenrette weighed in with the top spenders in 2000.

US Internet Companies, by eAdvertising Expenditures, 2000 (in millions)



Source: Donaldson, Lufkin & Jenrette, 2000

From the beginning, pricing web advertising has been the subject of debate and argument. Websites have historically preferred to sell ad impressions, while advertisers have wanted to "pay for performance," i.e., pay for a click-through to the advertiser's site.

Each pricing method has advantages and disadvantages, but undoubtedly the preferences of the two groups reflect their accurate assessment of their own self-interest and their desire to shift risk onto the other side.

We'll look at the data on CPMs and click-through, as well as hybrid models that combine elements of each, and then look at the data that shows how frequently each one is used.

Then there's the issue of whether and to what extent online advertising is effective. Debates rage in industry circles about whether banner ads are better used for direct response or branding. The data is inconclusive at best, but opinions abound, nonetheless. One thing is for certain, online marketers must always keep the consumer on the top of their minds.

The internet as an advertising medium

- Competes with other media for their time and attention
- Is a medium where consumers are in control (and usually on a self-directed) mission
- Is highly interactive, versus passive
- Should be both personal and relevant for the consumer

A. CPMs

CPM, or cost-per-thousand impressions, is the metric used in the offline world for buying and measuring media. A normal CPM of $20 per thousand impressions is the equivalent to two cents per impression.

An online impression is counted every time an ad is downloaded to a unique visitor. CPM, alone, or combined with performance-based measures like click-through rates, is the most common method for pricing online advertising.

CPMs, like pricing in any market, are governed by supply (the quantity or inventory of available ad pages) and demand (the number of advertisers and their willingness to pay to reach people on a given website).

What Drives CPMs Up (and Down)

- Aggregate traffic levels for a given site (supply)
- Desirability of ad pages/audience for that site (demand)
- Degree of targeting on site
- Degree of stickiness on site
- Quality of content/editorial

From the beginning of web advertising, the rapid proliferation of web sites and pages on the web (discussed earlier) has tended to outstrip demand for advertising. This has resulted in a continuous downward pressure on CPMs.

Targeting

Obviously, the more targeted a site is, the more desirable it is to an advertiser. This desirability (or demand) naturally leads to higher CPMs.

Web publishers face a trade-off between quantity and quality: the more they seek to gain knowledge of their users (e.g., through site registration), the more they risk turning off and turning away web surfers. However, the more information they gather on their sites' visitors, the more value they create for prospective advertisers. The advertiser has a product or service to sell and, generally, a profile of a purchaser most likely to be willing to buy it. This profile is matched against data about visitors collected by the web site to target advertising. The more precise the targeting is, the higher the price for the ad.

Three Degrees of Marketing and the Cost of Each in the US, 2001

Level	CPM per rate card
Mass	$10-$20
Targeted	$25-$150
Individual	$75-$200+

Source: eMarketer, 2001

CPM Trends

According to AdRelevance, on average, a web site will charge an advertiser $33.64 to make an impression on 1,000 internet users, or 3.364 cents per banner.

Averages, though, can mask extreme highs and lows. In fact, CPMs range from a low of $1 for a low-end, untargeted site to $100 or more for an extremely targeted and highly desirable demographic.

AdRelevance shows a 15% -17% decline in CPMs over the period from December 1999 to September 2000, depending on whether averages or median pricing is considered. In either event, it suggests downward pricing pressure.

Average and Median CPM in the US, 1999-2000

Time period	Average CPM	Median CPM
December 1999	$33.22	$30.00
March 2000	$30.52	$30.00
June 2000	$31.09	$26.00
September 2000	$28.28	$25.00
Change	-14.9%	-16.7%

Source: AdRelevance, 2001

Data from AdKnowledge's universe of websites illustrate the effect of supply and demand on CPMs. Average CPMs have declined as the number of sites seeking advertising has grown. Keep in mind, however, that CPMs are measured by reading the official rate card, and actual pricing has probably eroded more than this analysis would suggest.

Rates are discounted for the use of smaller than standard banner, but these rates have fluctuated both in relation to the cost of a full banner and over time.

US CPM, by Ad Format, Jan. 2000

Advertisement	Dimension (pixels)	Average CPM	% of full banner
Full banner	468 x 60	$28.28	100%
Half banner	234 x 72	$26.51	94%
Vertical banner	120 x 240	$54.17	192%
Tall button	125 x 125	$21.27	75%
Medium button	120 x 90	$20.20	71%
Short button	120 x 60	$18.19	64%
Micro button	88 x 31	$16.94	60%

Source: AdRelevance, 2000

Different formats have had much different changes in average pricing. Overall, pricing has been most strong for non-standard formats, probably a result of experimentation to achieve higher response rates. Short and micro buttons have also shown pricing strength.

US CPM, by Ad Format, Jan. 2000

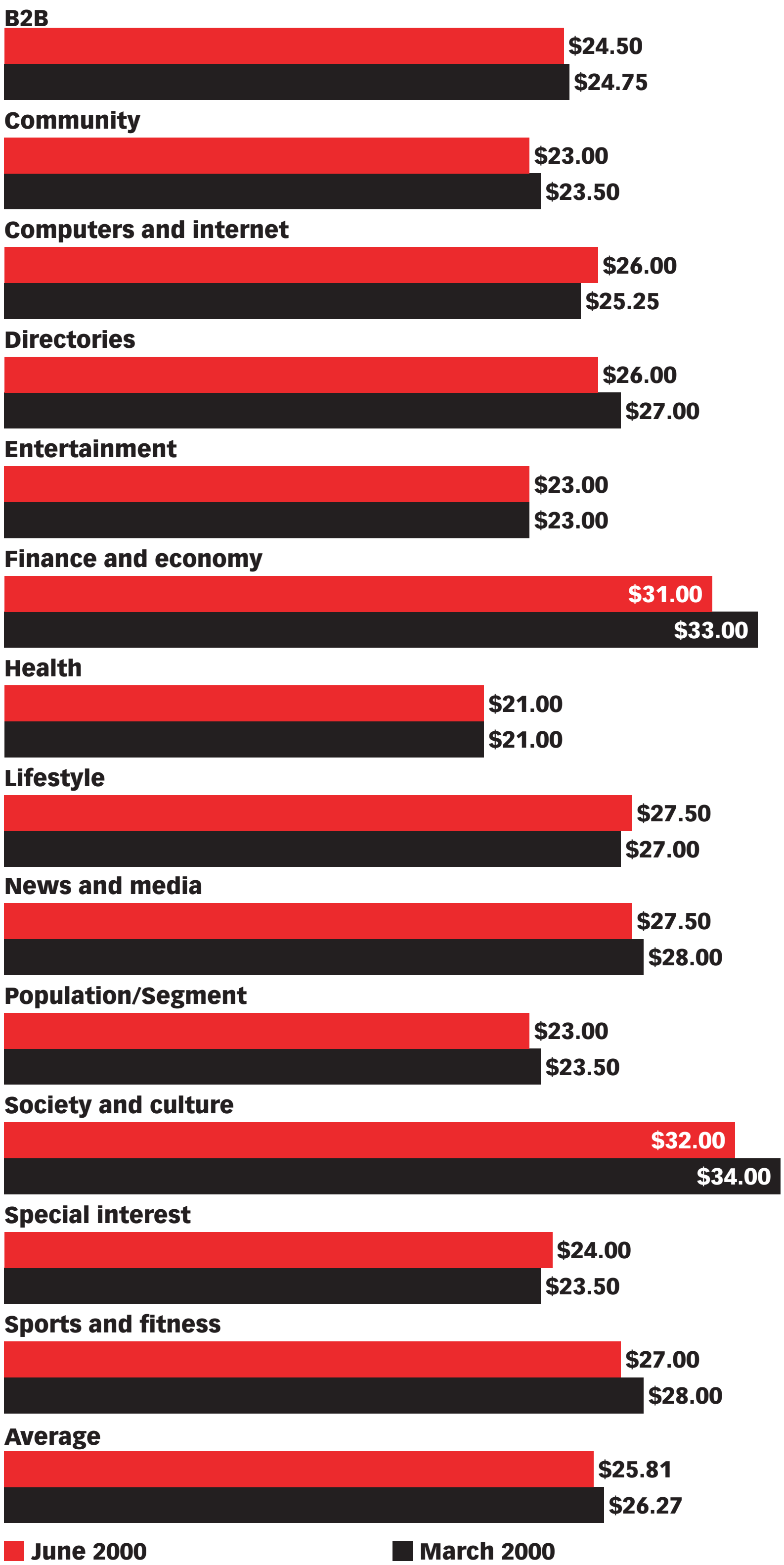
Advertisment	Dimension (pixels)	CPM January 2000	Average CPM Q4 2000	Change
Full banner	468 x 60	$33.22	$28.28	-15%
Half banner	234 x 72	$26.00	$26.51	2%
Vertical banner	120 x 240	$30.00	$54.17	81%
Tall button	125 x 125	$23.00	$21.27	-8%
Medium button	120 x 90	$20.00	$20.20	1%
Short button	120 x 60	$14.48	$18.19	26%
Micro button	88 x 31	$13.30	$16.94	27%

Source: AdRelevance, 2001

AdRelevance found that the 65% of CPM are in the $20 - $40 range.

Data from AdKnowledge indicates that during 1998-1999 most major categories showed continued price erosion. More recent data from AdKnowledge shows a continued downward trend in CPM rates.

Average US CPM Price, by Site and Network Category, June & March 2000

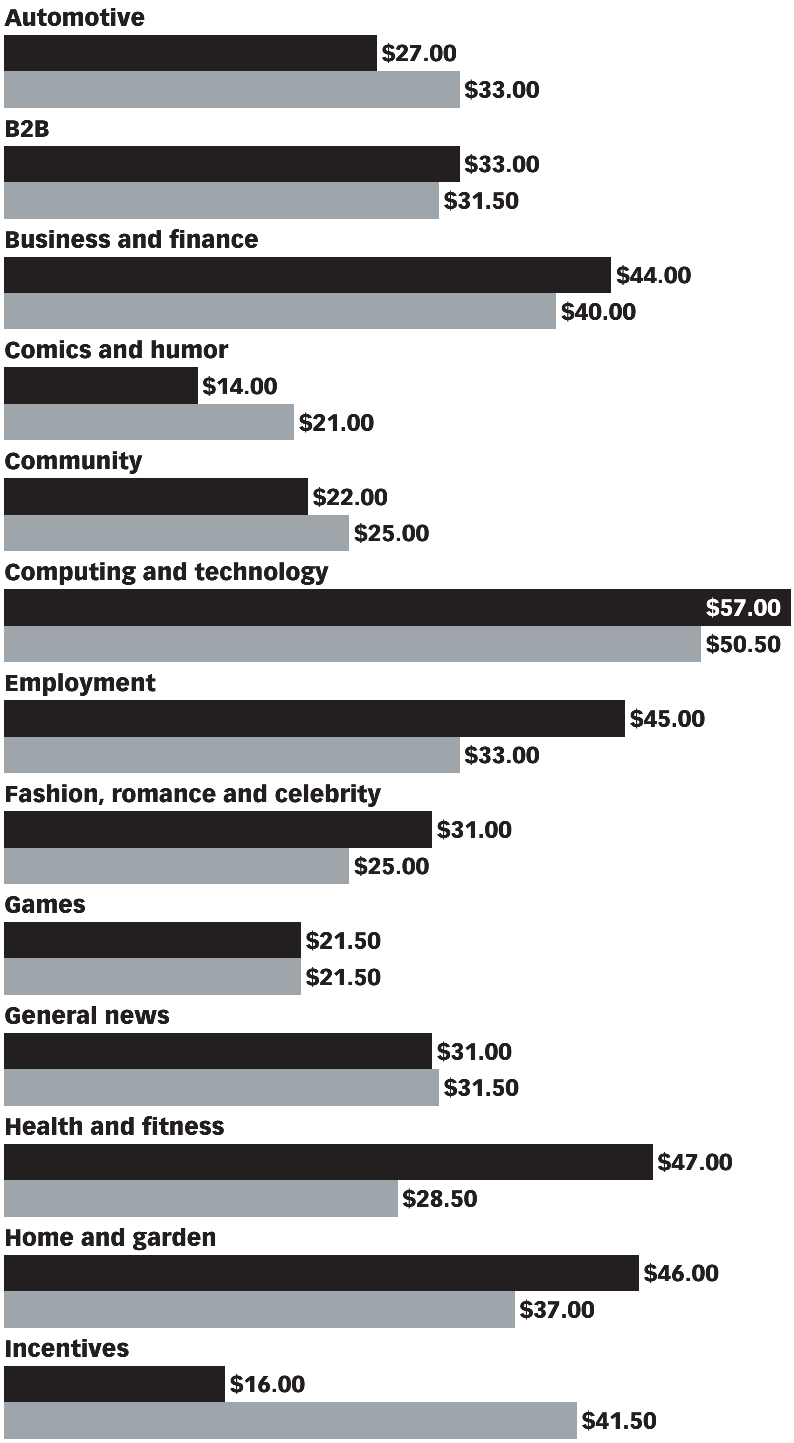


Source: AdKnowledge, 2000

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

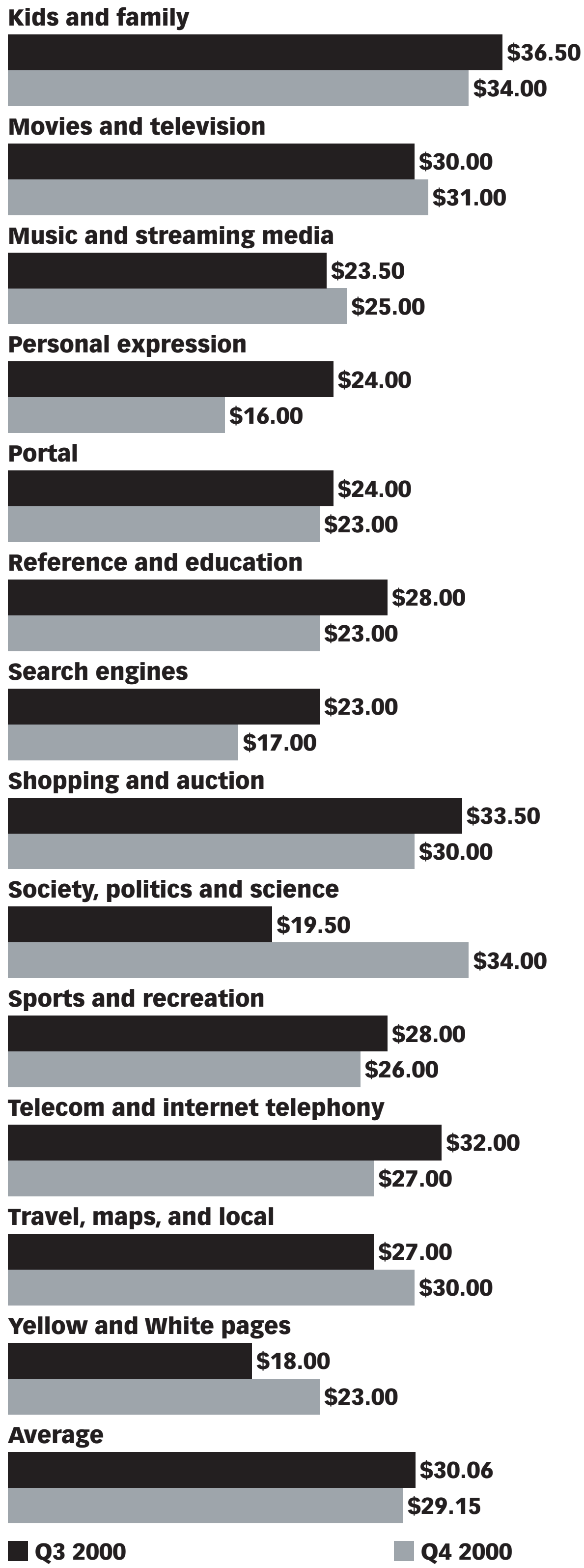
In the fourth quarter of 2000, CPM rates changed differently depending on which content genre one looked at. However, overall pricing came down 3% from the previous quarter.

Average Full-Banner CPM Rate Card Price in the US, by Genre, Q3 & Q4 2000



continued

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices



Source: AdRelevance, 2001

"While ad prices will continue to vary between site genres, we believe that increased competition will narrow price spreads within each genre itself."

—Charles Buchwalter, VP of Media Research, AdRelevance

CPMs: Rate Cards vs. Reality

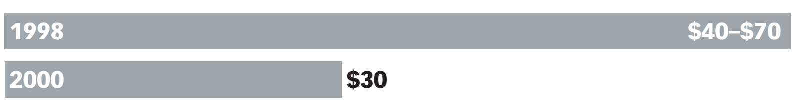
Although it is relatively easy to measure the number of impressions generated by web advertising, one of the biggest problems in measuring web ad spending has to do with pricing. Estimates of spending on web advertising are strongly influenced by assumptions that are made about the cost of web ads.

The $30+ CPM figures quoted in the previous section reflect "official" rate card pricing – not the actual prices paid after negotiations between the advertiser and site.

Though online web publishers and media space sellers may not wish to admit it, rate-card prices are routinely discounted. How much is a subject of debate. It is a rough rule of thumb that the average CPM (cost per thousand) on the internet is around $10 - $20.

Figures routinely reported in the media implicitly refer to official pricing, and only add to the confusion when they suggest that ad rates have fallen from a range of $40 to $70 CPM to $30 in late 2000.

Average Industry CPM in the US, 1998 & 2000



Source: eCompany Now, 2000

Few advertisers or publishers share this information, but some industry experts estimate that the typical CPM, after discounting, is in the range of $5 - $10 for a run-of-site buy, and reports have recently emerged that CPMs can go down to $1 in some cases.

Business 2.0 has estimated that "normal" CPMs are 70% to 85% of rate-card rates. This would mean that estimating online ad spending based on rate card CPMs would be 15% to 30% too high.

Even more telling, comments in online advertising discussion groups suggest that 99% of websites selling ads do not get more than $5 - $10 CPM.

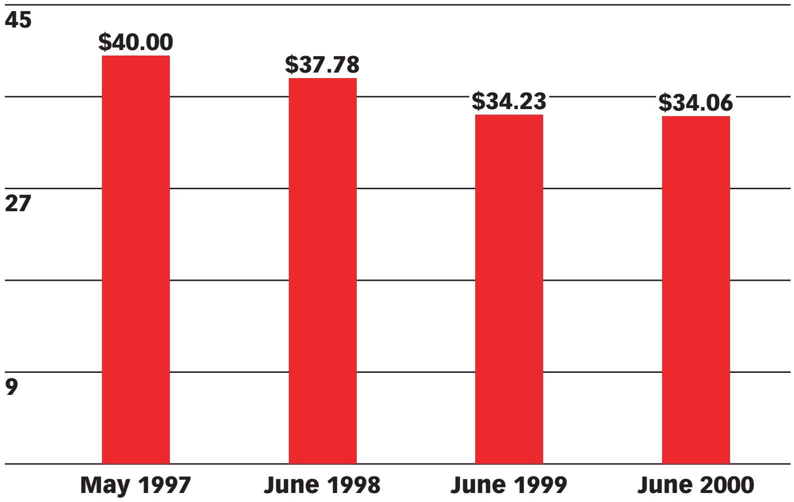
Determining the "real" CPM is a challenge. In effect, the rate card acts as a public relations document, positioning the website as a member of the internet's elite venues. The higher the CPM is on the rate card, the more prestigious the site.

AdZone claims to record every impression that runs on more than 1,000 of the web's most visited ad-supported sites—95% of the ad-supported web, according to their own estimates—and multiplies them by the rate-card CPMs. No attempt is made to adjust for the discounting that goes on between advertisers and site publishers.

Not surprisingly, AdZone's numbers are significantly higher than those of the Internet Advertising Bureaus'. AdZone, for example, had reported that web ad spending in the first three quarters of 2000 amounted to $10.8 billion. IAB's figure for the same period of time is 44% less – $6.1 billion. This discrepancy can be used to infer how real CPMs compare to the rate card.

AdKnowledge has been tracking industry-wide CPMs for several years. While perhaps most useful as a measure of change rather than an absolute number, the AdKnowlege data has been frequently cited as the best indication of overall industry pricing. AdKnowledge estimated that the average CPM at mid-year 2000, based on rate-card prices, is a shade over $34, essentially flat compared with the previous year.

Average CPM Rates in the US, 1997-2000



Source: AdKnowledge, 2000

If we assume that the difference between real CPM and rate-card CPM accounts for the difference between AdZone and IAB numbers, then we would reduce the $34 by 44%, to $19.20.

But many researchers, eMarketer included, present even lower estimates for spending over the first three quarters of 2000. eMarketer estimates spending through the end of the third quarter at $5.2 billion, while AdRelevance reports $4.9 billion, and International Data Corp. (IDC) estimates $3.84 billion.

Comparative Estimates: US Internet Advertising Expenditures and Implied CPM, Q1-Q3 2000

Source	Billions	Implied dicount from rate card	Implied CPM
AdRelevance	$4.9	55%	$15.45
AdZone (with CPM from AdKnowledge)	$10.8	0%	$34.06
eMarketer	**$5.2**	**52%**	**$16.40**
International Data Corporation	$3.8	65%	$11.98
Internet Advertising Bureau	$6.1	44%	$19.24

Source: eMarketer; various, as noted, 2000

eMarketer's first-half spending figure of $5.2 billion is 52% less than AdZone's reported figure. Applying that difference to Adknowledge's average rate card-based CPM of $34.06, would give us an actual, effective industry-wide CPM average of $16.40.

So, what are the CPMs being negotiated in the secret inner sanctums of the web advertising market? On average, it looks to be closer to $16 than to $34.

Using this same methodology, we can deduce that pricing degradation doubled from the first quarter to the fourth quarter of 2000. That is, while the average discount off rate cards was 27% in the first quarter, it rose steadily over the next three quarters to 40%, 56% and 62%, respectively.

Comparative Estimates: US eAdvertising Expenditures, Q1-Q4 2000 (in millions)

Source	Internet Advertising Bureau	AdZone	Implied discounts
Q1 2000	$1,953	$2,691	27%
Q2 2000	$2,124	$3,565	40%
Q3 2000	$1,986	$4,543	56%
Q4 2000	$2,000	$5,276	62%
Year total	$8,063	$16,075	50%

Note: Q4 and full year IAB data is eMarketer projection based on IAB quarterly growth
Source: eMarketer; various, as noted, 2001

Interestingly, the *Wall Street* Journal reported that Yahoo! was charging clients a CPM of $9 at the beginning of the year 2000, but that by early 2001, that rate had fallen in at least some cases to $3. (Note: Yahoo! disputed his assertion.)

A recent study by Morgan Stanley Dean Witter determined that the average "effective" cost per thousand (CPM) price of banners is $3.50. At this price, they claim that banners are 80% cheaper than TV and newspapers. They define an "effective" CPM as the actual price paid by the advertiser after all bartering and discounting are completed.

"Even if banner pricing rose by 20%, we believe it would still be the most cost effective branding tool."

—Morgan Stanley Dean Witter, 22 February 2001

As the chart shows, banner ads beat TV, magazines and newspapers hands down when it comes to cost effective CPM. Banners, however, are weaker than other media at generating brand awareness.

Comparison of US Media Effectiveness in Branding: TV, Magazines, Newspapers and Banners, 2000

Measurement	TV	Magazines	Newspapers	Banners
CPM ("effective")	$16.00	$6.00	$19.00	$3.50
Generating brand awareness	36%	29%	–	14%
Brand recall ability	17%	26%	23%	27%

Source: Morgan Stanley Dean Witter, 24/7 Media, AdRelevance, ADVO, CAB, DMA, Dynamic Logic, 2000

Most curious is the finding that banners are better at all other media when it comes to registering brand recall. Given the long list of research sources mentioned, and realizing that some of them have a vested interest in promoting the web as an advertising medium, eMarketer questions the validity of these findings. How can banners possibly be better than television or magazines at generating brand recall?

"[Magazine] publishers still try to keep the issue under the table. Forests are cleared every year to publish printed rate cards, and Publishers Information Bureau tallies magazine ad revenue as if there was no such thing as rate negotiation. It's time for a change."

—*Advertising Age*

Advertising Cost-per-Thousand Rates (CPMs) in the US, by Media, 2000

Media	Average CPM
Daily newspapers	$19.00
Prime-time broadcast TV	$16.00
Radio	$6.00
Magazines	$6.00
Day-time broadcast TV	$5.00
Internet ("effective"CPM)	$3.50

Source: Morgan Stanley Dean Witter, 2001

B. Click-Through Rates

"Does internet advertising work? Interestingly, no one asks us, "Does television advertising work?" or "Do coupons work?"

—*Morgan Stanley Dean Witter, 22 February 2001*

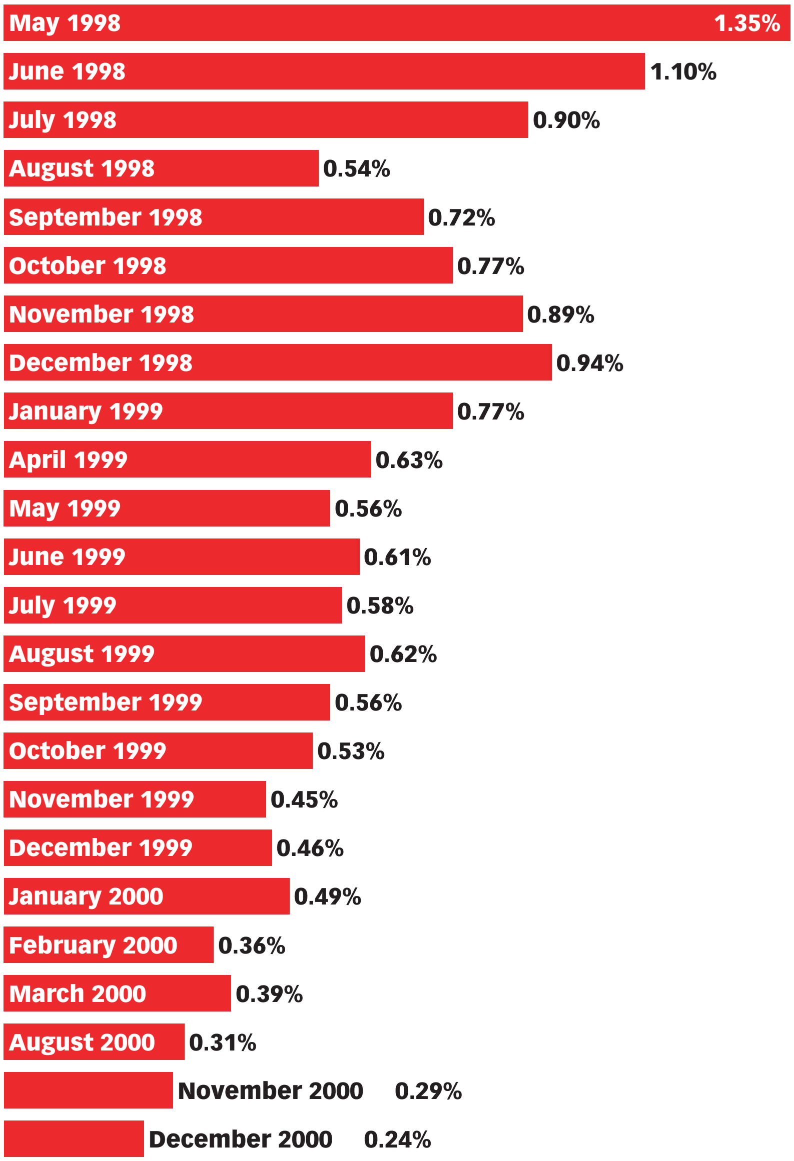
The internet has always billed itself as the ultimate measured medium. And click-through rates were seen as the ideal, instant measurement tool. Throw up a bunch of banners, and then count how many click through. But the pundits forgot to ask, "What if nobody clicks?"

Today, most authorities agree that less than 1% of all web ads get clicked on. And that's being generous.

eMarketer, in fact, puts the current click through rate at 0.3%, down considerably from the early days of the web (circa 1997) when CTRs hovered in the 2-3% range. Nielsen/NetRatings , which has tracked CTRs since 1988, estimated CTR rates at 1.35% in 1988 and reported a decrease to 0.24% in December of 2000.

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

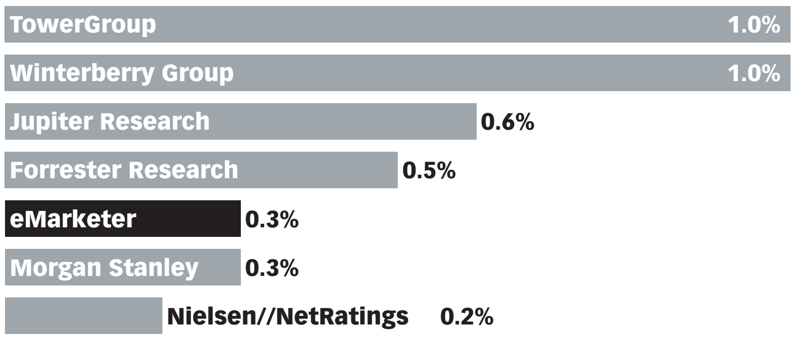
Banner Click-Through Rates in the US, May 1998-December 2000



Source: Nielsen//NetRatings, 2000

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

Comparative Estimates: US Banner Click-Through Rates, 2000



Source: various, as noted, 2001

In a 2001 Booz-Allen Hamilton study it was found that while 60% of internet users visit portals, only 0.1% click on banner ads placed there. And yet Yahoo! gets 90% of its revenues from banners.

Banners are so inexpensive, however, that they are usually cost-effective even with a 0.3% click rate. Not only are they cheap, but also they are flexible, universally accepted, easy to produce and easy to revise. Although new forms have grown, and the tracking classifications have had to grow to take account of them, banners have had a remarkable resiliency.

"The banner is the easiest medium of exchange."
— Michael Lubell, Internet Marketing Director, WinStar Interactive

The Case for eAdvertising Banners

Banners are still the predominant web ad vehicle. Sponsorships and interstitials trail far behind
Creative is easy to update and change in real time
Online consumers can click-through to an advertiser's website
Branding, direct response including transaction are achievable within a single creative unit
Cost of production is negligible compared with television commercials, radio spots or even print ads
Banners are much less expensive than direct mail, at least 60% – 65% cheaper

Source: eMarketer, 2001

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

The Case against eAdvertising Banners
Over 99.7% of all ad banners don't get clicked on
52% of web surfers never click on banners
80% of users "usually ignore web ads" (Wirthlin Worldwide)
25% of web surfers can't recall any specific online ad (Active Research)
Users abort between 18%-42% of pages on slow-loading sites, and therefore never see the ads those pages contain
Source: eMarketer, 2001

Why Are CTRs Falling?

One reason that click-through rates for banner ads are so low is that over half of all net users – 52% –never click on them. Researchers disagree on the exact number, but the range among researchers is between 50 – 60%.

Comparative Estimates: US Internet Users Who Never Click on Ad Banners, 1999

Source: eMarketer, 2001; various, as noted, 2000

Why CTRs Continue to Decline, 2000
Too many ads chasing too few viewers
The novelty and thrill have gone
Complexity of the page
Surfers are evolving into searchers
Users are more discriminating
Source: eMarketer, 2001

Click-through rates are also falling because to click on banner ads would likely interrupt the web user who is typically engaged in a search for specific information.

Of course, the likelihood of a consumer clicking on a banner depends significantly on what they're doing when they see it. Banners that are targeted and well-matched to users activities and interests do much better at eliciting a response.

"The key to success is strategic placement. The content should have real perceived value."
— *Bernadette Tracy, President, NetSmartAmerica.com*

The ultimate problem with banners, however, lies in the overload of media. The number of web advertisements continues to grow faster than the time spent on the internet, so web surfers are being subjected to more and more ads.

Moreover, each successful new technique (e.g., e-mail or rich media) sows the seeds of its own failure. Once advertisers become aware of a high-response technique, they pile on it. And consumers get numbed to effects.

Opt-in email has been successful this past year, but now everyone is being deluged with email advertising (do you, too, have an overstuffed in-boxed?). The result — even e-mails that are of possible interest are routinely deleted.

The problem of advertising overload is not limited to the internet. All forms of media are clamoring for attention. In the last 40 years, consumers have been bombarded with a number of media choices that number in the hundreds and thousands. Now, courtesy of the internet, the number of media choices is reaching into the millions.

US Mass Media, 1960 & 2004

Media	1960	2004
Television	4 TV channels	200 TV channels
Local radio stations	18 local radio stations	44 local radio stations
Magazines	4,500 titles	18,000 titles
Internet sites	–	6 million sites
Internet radio	–	2,400

Source: Business 2.0, 2000

Jupiter Research predicts that by 2005, the average web user will see 950 ad views per day. And that's nothing compared with the 4,000+ they'll see when you count television, radio, print and other traditional media. Obviously, precise targeting is the only hope in that situation: advertisers must develop ways to make the right offer to the right person at the right time. Fortunately, the internet holds out the promise that this can be done.

US Consumer Marketing Messages per Day, 1999-2005

	1999	2000	2001	2002	2003	2004	2005
Online ads	440	520	610	705	800	880	950
Offline ads	3,000	3,175	3,228	3,301	3,357	3,435	3,507
Total	**3,440**	**3,695**	**3,838**	**4,006**	**4,157**	**4,315**	**4,457**

Source: Jupiter Research, 2000; eMarketer, 2001

eMail Click Rates

Another way to boost click-through response is to use targeted e-mail.

eMarketer estimated the average e-mail click-through rate at 5.4% when it was the new thing, but the short half-life of new internet advertising forms has resulted in a rapid decline to 3.2% in 2001.

US Click-Through Rate, by eAdvertising Channel, 1999 vs. 2001

Channel	1999	2001
Direct mail	1%–1.5%	<1.0%
Banners	0.4%	0.3%
Rich media	3.4%	1.7%
eMail (opt-in)	5.4%	3.2%

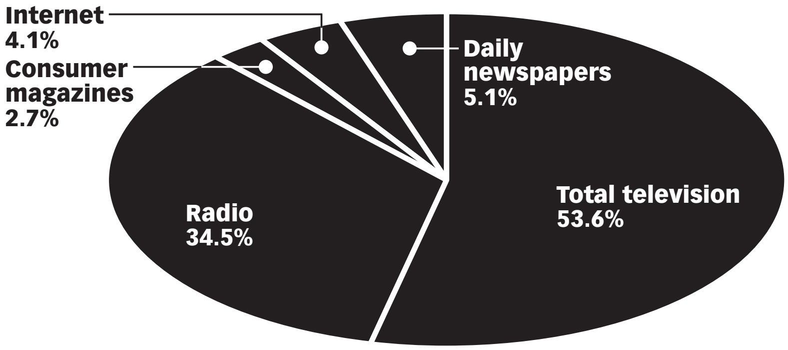
Source: eMarketer, 2001

Targeting, Conversion Rates and ROI

"Precise and interactive, the web was supposed to be the greatest medium yet for advertisers. So why have the grand hopes gone up in smoke?"
—The Industry Standard, 19 March 2001

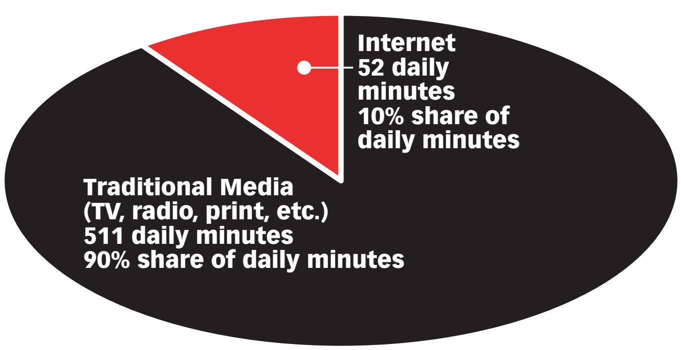
A conventional wisdom of advertising is that ad dollars always follow eyeballs. If you build a medium that attracts people, the thinking goes, advertisers will flock to you. But that hasn't happened. Depending on the source, between 4% - 10% of media consumption is on the internet, yet online advertising receives only 2.9% of total media dollars.

Daily Share of Advertising Media among US Consumers, 2000



Source: Veronis, Suhler & Associates, 2000

Minutes of Daily Media Use among US Consumers, 1999



Note: Based on a random digital dial phone survey of 1,000 persons 12-plus in November 1999
Source: Statistical Research, Inc., 2000

Targeting is a key factor when evaluating CTR and conversion rates. An automobile ad that is intrusive and annoying to one web surfer can be highly valued by another who is "in the market" for a car purchase. As ads are increasingly targeted and incorporate information gathered from users' activities on the web, they can achieve a greater ROI (Return On Investment).

NextCard, for example, has reported that it has slashed two-thirds off its customer acquisition cost since the beginning of 1998 using web advertising (for which it typically pays $5 CPM).

eMarketer, using benchmarks from Forrester Research, has created a prototype ROI model, which can be used to understand the relationship between impressions (often priced on a CPM basis), click through, and conversion rates.

In the example below, 1 million impressions obtain a click-through rate of 0.5% resulting in 5,000 "lookers." A rule of thumb is that the "look to buy" ratio (or "look to book") runs about 2%, similar to direct mail response rates. The resulting 100 buyers yields a conversion rate of 0.01% (i.e., number of buyers divided by the number of impressions).

Model Internet Advertising Campaign in the US, 2001

Measurement	Key data point
Impressions	1,000,000
Click-through rate	0.5%
Lookers	5,000
Look-to-buy rate	2.0%
Buyers	100
Conversion rate	0.01%

Source: Forrester Research, 1999; eMarketer, 2001

By building on this scenario and adding hypothetical CPM and click-through rates that are appropriate for your business, you can make some educated guesses about expected ROI.

It is also important to know that, assuming given click-through and look-to-buy rates, CPM and click-through pricing can be converted into each other. By analyzing pricing models in this way, one can determine whether a performance-based or CPM deal is more advantageous, or if it makes no difference which pricing structure is used.

Finally, to go beyond focusing only on click-through, it is helpful to consider the cost side of the equation. Let's take a look at the cost required to get a response in various direct response media such as telemarketing, direct mail, banners, opt-in e-mail and "spam" (broadcast email without the consent of the addressee).

Several things are apparent. First, online response tactics appear to offer very favorable cost-economics compared to offline counterparts. Second, the much-maligned banner trails only slightly the more hyped opt-in e-mail. Based on the evidence of my own e-mail in-box, even the less cost effective spam appears to be well within the cost-benefit calculations of a multitude of online merchants.

C. Banners and Branding

"Is this [the web] a branding medium? No, not really...the traditional building of a brand, which is to create an image, create a feeling is not there yet. Hopefully, we will with streaming audio and broadband — make me laugh, make me cry. But that's where I think the industry has a lot of growing up to do."
— *Jeff Mallett, President, Yahoo!*

"Too many people conclude banners are ineffective. But if you are doing your branding properly, everyone gets the message despite a 1% click-through."
— *Jay D. Sandom, Rapp Digital*

This is the multiple-choice question everyone in the online ad industry is trying to answer: Are banners best used for a) direct response, b) branding, c) both or d) neither?

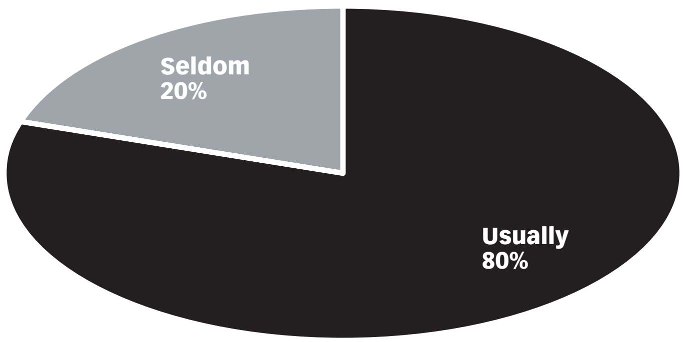
Given the widespread, precipitous and continued decline in click-through rates, online ad proponents are now insisting that banner ads are much more effective as branding tools. Many analysts go even further saying that click through is, in fact, a meaningless and inappropriate metric for web advertising.

The basic argument goes that while visitors to a site may not desire to click on a banner at any given moment (which would take away from their point of interest), they are nevertheless exposed to the banner's message. This exposure, so it is postulated, leads to ad recall, heightened brand awareness, improved attitudes and perceptions and other "soft" measures.

Countering this thinking is both scientific and anecdotal evidence that web visitors, for the most part, don't even notice banner ads. The internet is a medium where the consumer is control, and most web users are on a self-directed mission to find something in particular. Anything that gets in their way, therefore, is seen as a distraction. Over time, web users have come to regard banners as wallpaper or white noise. They unconsciously, or consciously, tune them out.

In fact, according to a study by Wirthlin Worldwide, 80% of web users "usually ignore banner ads."

How Often US Internet Users Ignore Banner Ads, 2000



Source: Wirthlin Worldwide, 2000

"You're not sitting on a couch with a beer saying, 'Entertain me!' You are on a mission…and banners and pop ups get in the way."

— Scott Bedbury, Marketing Consultant

Then there are the web surfers who not only ignore web ads, but seek to block them out entirely. Many enterprising software developers are developing programs to do just that.

"People already use the natural blocking software in their brains by ignoring banners…we want to give the user to do what he wants with that space."

— Dion Lim, Cofounder, Epinions.com

Sometimes the best research lies within your own experience. Think of the last 100 banner ads you've seen. Can you remember ten? Can you even remember two?

eMarketer's take is that banner ads do have some branding clout. But they are best used to reinforce a brand that is already established through other, traditional media such as television, radio and print. The internet, by its own reckoning, is a targeted, not a reach medium.

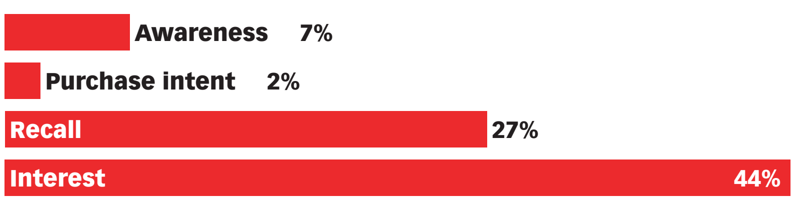
For the past couple of years there has been very little hard data to support the case for banners working as a branding medium. Most of the evidence has been in the form of isolated case studies, anecdotes and questionable studies by biased sources.

The good news is that there is now more data. The bad news is that it's still questionable.

In Q1 2001, Dynamic Logic, 24/7 Media and AdRelevance teamed up to provide support for banner advertising's effectiveness as a branding tool. Beyond the obvious self interest of these parties, there is the question of how the studies were conducted and the lack of base figures in the reported results.

The study found that banner advertising increases brand awareness by an average of 7%. Interestingly, brand awareness is inversely related to the number of elements in a banner: the more cluttered the banner, the less likely consumers are to recall it. Note the purchase intent increased a scant 2%.

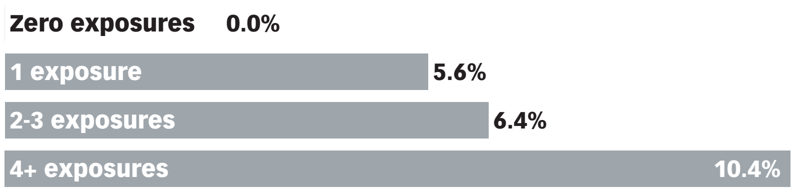
Mean Increase of US Banner Advertising: Awareness, Purchase Intent, Recall and Interest, 2001



Source: AdRelevance, 24/7 Meia, Dynamic Logic, 2001

In a separate study by Dynamic Logic, it was found that individuals who were exposed to a single banner ad had a 5.6% higher brand awareness than those who were not exposed. As would be expected, the greater the number of banner exposures, the higher the brand awareness.

Relative Brand Awareness Levels in the US, Based on Banner Exposures, 2001



Note: Percentages reflect the relative increase for those exposed versus a control group who were not exposed
Source: Dynamic Logic, 2001

Avenue A, an interactive advertising agency, did its own study in December 2000 to prove that online advertising works (not that they have any interest in convincing prospective clients). The study, using a control and test-group methodology for a travel service client, found that the test-group that saw banner ads generated 10% more sales and traffic than the control group.

A DoubleClick study found that internet advertising lifted impulse purchases by 19% (versus a control group that saw no internet ads), but had no effect at all on planned purchase goods. Yet since the vast majority of internet purchases are planned, the results are not particularly relevant to most online marketers. Furthermore, the study found that frequency had an impact on purchase behavior. With 3-6 banner exposures there was no significant lift; but with 7-10 exposures there was a 28% lift in impulse purchases.

Is Bigger Better?

In March 2001, just as the bottom was falling out of the economy and the online advertising market in particular, the Internet Advertising Bureau announced that it was establishing standards for seven new banner ad formats, including the vertically impressive “Skyscraper” and an oversized rectangle-sized box.

But the industry’s solution to the banner problem – merely increasing their size – seems half-hearted at best. Bigger banners do have their advantages, but they are likely to succumb to the same laws of nature experienced by regular banners, particularly as web users get used to them and the novelty wears out. In a word, will web users just tune them out?

Some analysts say the bigger banners may click through less important since key information can be brought to the users, instead of making them leave the site to go get it. The ads also allow publishers to charge higher CPMs.

Others argue that bigger banners can indeed be better, but only if they are supported by an integrated brand marketing approach that includes strong messaging and imagery.

The Pros and Cons of the IAB's New Bigger Banners, 2001

Pros	Cons
More attention-getting	More intrusiveness may mean greater annoyance
Can carry a bigger message	Forces web publishers to redesign their websites (to accommodate the bigger sizes)
Better for branding and conveying impact	The novelty will likely wear off
Can better communicate emotion	Costs 2 to 3 times more for media space

Source: eMarketer, 2001

Just as soon as the bigger banners were launched, new research data was dispatched to prove they work better. The IAB and the American Association of Advertising Agencies conducted a joint survey among online advertisers and their agencies, which showed that 93% felt the new banners would be more effective. However, only one-third of the 46 agencies polled said the new banner sizes warranted the extra fees. In other words, a majority felt they were not worth the premium price. It should be noted that the response rate for the study was only 9.8%: out of 800 people sent the survey, only 78 were returned.

D. Spending by Ad Formats

The breakdown of ad format shows that at the end of 2000, banners still accounted for 46% of web ad spending. Sponsorships were second with 28%. Classifieds were the biggest success story of 2000, coming out of nowhere to grow to 9% by the third quarter and become the third biggest category.

Despite all the hype that has surrounded them e-mail and rich media account for only 2% each.

US eAdvertising Expenditures, by Type of Advertising, 1999-2000

Ad format	Q1 1999	Q2 1999	Q3 1999	Q4 1999	Q1 2000	Q2 2000
Banners	58%	59%	55%	53%	52%	52%
Sponsor-ships	29%	28%	27%	25%	27%	27%
Interstitials	6%	4%	4%	4%	3%	3%
eMail	1%	1%	2%	3%	3%	2%
Other*	6%	8%	12%	15%	5%	2%
Classifieds	–	–	–	–	4%	7%
Referrals	–	–	–	–	3%	4%
Rich media	–	–	–	–	2%	2%
Keyword search	–	–	–	–	1%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

*Note: *"Other" includes e-mail advertising until Q4 1998, when e-mail began to be broken out as a separate category; rich media is categorized as part of "other." More detailed breakdowns were started in 2000*
Source: Internet Advertising Bureau (IAB), 2000

Rich-Media eAdvertising Facts, 2000

More expensive to create set-up and deployment
Tech companies charge a one-time setup fee for rich e-mail, ranging from $2,000 to $10,000
The cost to create a message with streaming video and audio is at least $5,000 - and that doesn't include delivery fees
Contribution to bandwidth bottleneck
More intrusive = more annoying
Often requires user to download plugs
Response rates are often exaggerated

Source: eMarketer, 2001

Pricing Models

As discussed earlier, in the early days of the web, players favored print media pricing models based on cost per impression or CPM. Later, advertisers began to view the web more like a direct response vehicle, and wanted to pay for quantifiable results, e.g., click, lead or sale.

Web publishers have argued that they can't control the creative (presentation of the ad), nor what happens once the user clicks to the advertiser's website. Therefore, they have wanted to be paid for what they deliver – impressions, or "eyeballs." They also wanted advertisers to pay for branding, i.e., the effect of merely seeing the banner, whether or not the user clicks through.

Out of this history, three models emerged:

- Pure, impression-based buys, using a cost-per-thousand (CPM) or sponsorship approach
- Performance-based buys, based on a cost-per-click (CPC), cost-per-lead, cost-per-sale or some other cost-per-action
- Hybrid approaches involving some mixture of these two approaches and create a way for the key players to share risk.

In Q3 2000, according to the IAB, the most popular buying model was still the hybrid (48%), involving a combination of impression-based pricing and some performance measurement. Pure CPM-based deals accounted for 41%. Over time, performance-based deals have nearly tripled from 4% to 11%, but still remain a small part of the pie.

eAdvertising Pricing Models Used in the US, as a % of Total Expenditures, 2000

Pricing Model	Q1 2000	Q2 2000	Q3 2000
Hybrid	48%	46%	48%
Straight CPM (1)	42%	44%	41%
Performance-based (2)	10%	10%	11%
Total	100%	100%	100%

Note: (1) Includes sponsorships; (2) Includes cost-per-click/lead/sale models as well as straight revenue share (commission on sales)
Source: Internet Advertising Bureau (IAB), 2000

Pressure by advertisers to pay only for performance encourages publishers to demand revenue sharing for any purchases made through their sites. Ultimately, since algorithms can translate a given CPM into an equivalent click-through rate, hybrid models will continue to be used to share the risks and rewards of online advertising.

E. Wireless Advertising

Wireless penetration figures abound, and they're all over the map. But the very first question advertisers should ask is this: Will consumers respond to wireless advertising?

A 2001 Jupiter Research survey found that 46% of wireless users said that no form of compensation, including subsidized content and access, would persuade them to receive ads on their wireless mobile phones. Never mind that:

- 66% of current cell phone users in a Strategis Group survey say they aren't interested in wireless access to the internet
- 67% of US households in a Forrester study said they have no interest in making wireless purchases

The Jupiter Research study also found that in 2000, 77% of online advertisers spent NO dollars on wireless ads. And while total wireless online ad revenues will reach $16 billion by 2005, the wireless share will be a measly $700 million.

What advertisers need to keep in mind about wireless phones is that:

- The screens are tiny
- Inputting data is a hassle
- Bandwidth is limiting
- No standards exist in the US (many competing phone and service platforms)
- Phones are a highly personal possession (so interruptions can be really annoying)

Now, let's hear those penetration forecasts...

According to Ovum, Europe will be the biggest market for mobile advertising spending through 2005, reaching nearly $6 billion in that year.

Since the beginning of wireless communications, Europe has led the US in terms of wireless usage and penetration. Consequently, by virtue of the higher level of activity in the wireless arena and the more intense use of wireless telephony, it also leads in the development of advertising vehicles that can work effectively within the constraints of mobile devices. Asia-Pacific will be the second biggest mobile advertising market at $4.7 billion in 2005, followed by North America with over $4.5 billion.

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

According to several researchers, growth will be slow globally through 2002 (due to technological hurdles), but starting in 2003 and continuing through 2005, the rate of growth that will be astronomical. Whether these aggressive forecasts will be borne out in reality is to some extent in doubt.

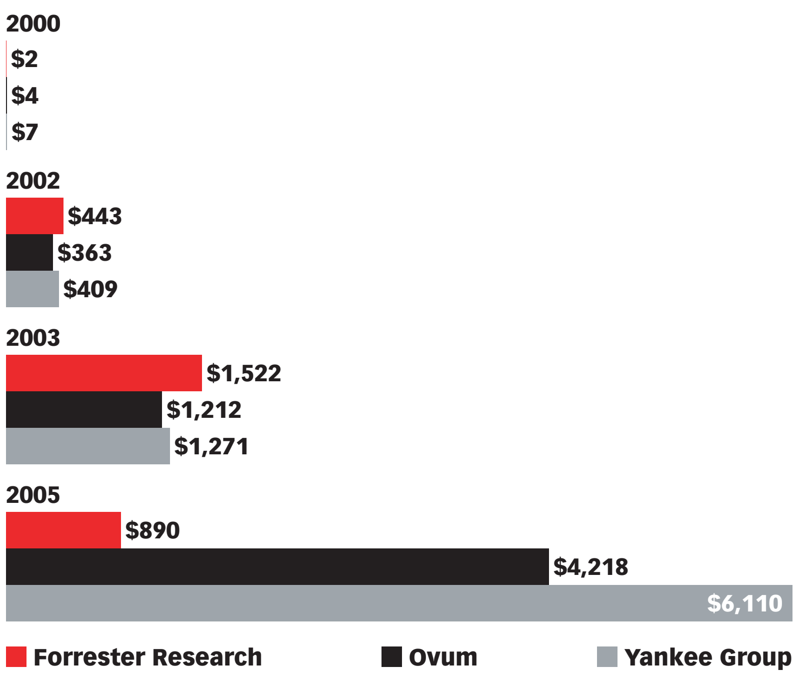
Global Wireless eAdvertising Expenditures, 2000-2005 (in millions)

	2000	2002	2003	2005
Europe	$2	$443	$1,522	$5,979
Asia Pacific	$7	$409	$1,271	$4,705
North America	$4	$363	$1,212	$4,558
Latin America	$0	$0	$20	$631
Middle East/Africa	$0	$10	$60	$528
Global	**$13**	**$1,225**	**$4,085**	**$16,401**

Source: Ovum, 2000

Ovum expects US wireless advertising spending to hit $4.2 billion in 2005, up from $4 billion last year. Although Forrester's estimate is much lower at $890 million, Yankee Group predicts that spending could top $6 billion in 2005.

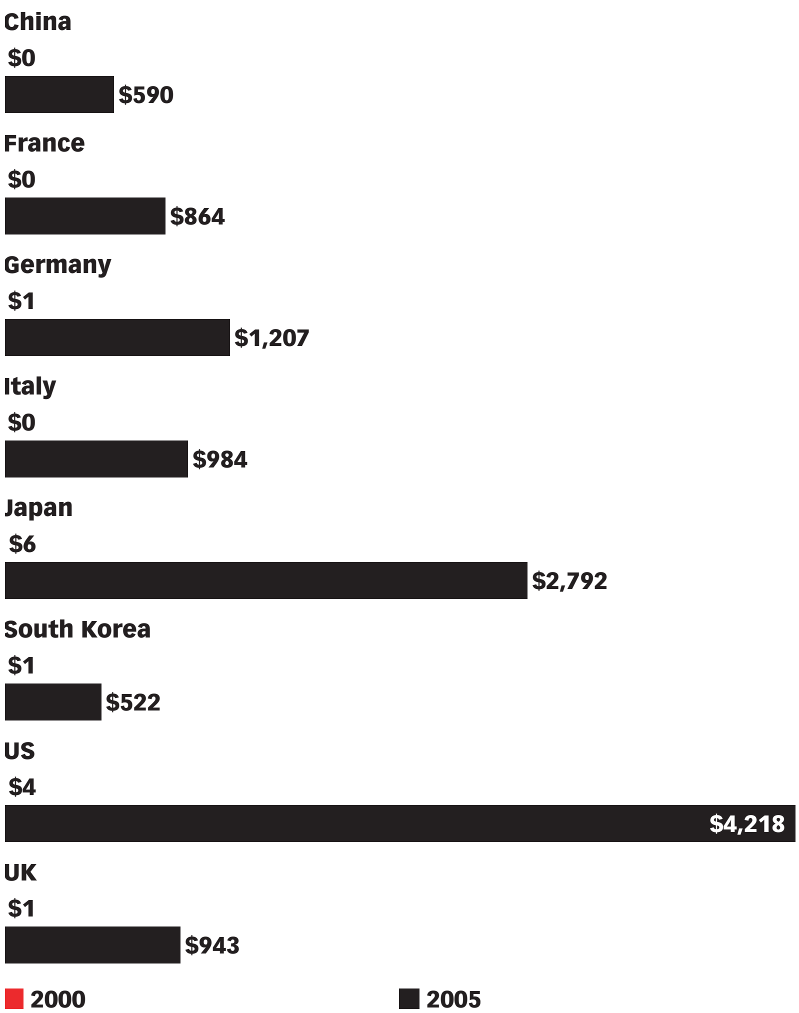
Comparative Estimates: US Wireless eAdvertising Expenditures, 2000-2005 (in millions)



Source: eMarketer, 2001; various, as noted, 2000

The US and Japan will emerge as the leading countries in wireless web advertising. Germany, Italy, the UK and France are also expected to be among the leaders in mobile e-advertising spending.

Global Wireless eAdvertising Expenditures in Selected Countries, 2000 & 2005 (in millions)



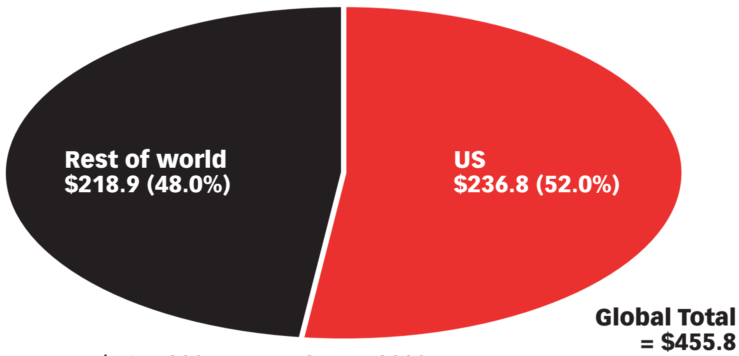
Source: Ovum, 2000

VIII

A. Offline Advertising

In the offline world, US advertising expenditures on major media advertising reached a total of $236.8 billion in 2000. This figure accounted for 52% of the world's total ad spending estimated at $455.8 billion.

US and Global Offline Ad Expenditures, 2000 (in billions)



Sources: eMarketer, 2001; Myers Group, 2000

US offline advertising expenditures will grow to over $256 billion in 2004, while non-US expenditures will grow to over $251 billion in that year.

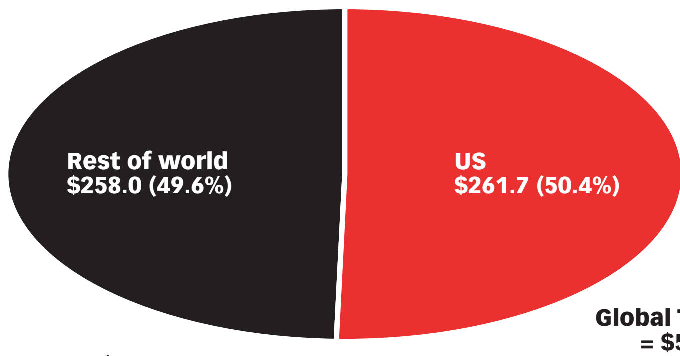
US and Global Offline Advertising Expenditures, 1999-2005 (in billions)

	1999	2000	2001	2002	2003	2004	2005
US	$223.8	$236.8	$240.9	$246.3	$250.5	$256.3	$261.7
Rest of World	$210.9	$218.9	$225.9	$233.9	$242.0	$251.4	$258.0

Source: Myers Group, 1999; eMarketer, 2001

In 2005, the US will continue to maintain a slight majority of total offline ad spending, at 50.4%, a share slightly less than the 52% registered in the year 2000.

US and Global Offline Ad Expenditures, 2005 (in billions)



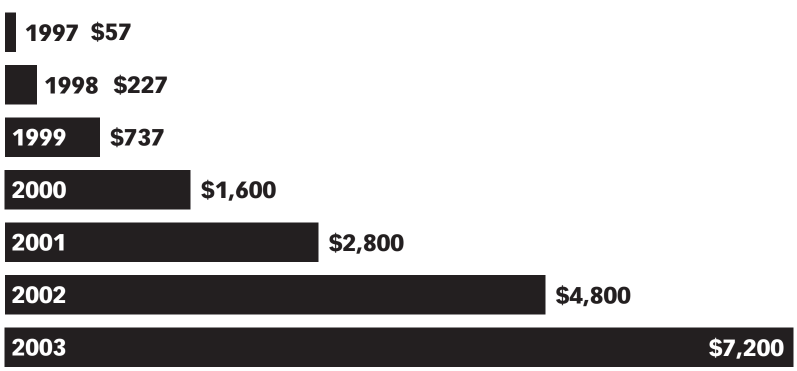
Global Total = $519.7

Sources: eMarketer, 2001; Myers Group, 2000

B. eAdvertising

Turning our attention to online advertising, spending outside the US grew from $227 million in 1998 to $737 million in 1999 and by 2003 will grow to $7.2 billion, roughly the US level in 2000.

eAdvertising Expenditures in Markets Outside the US, 1997–2003 (in millions)



Source: eMarketer, 2001

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

Non-US web ad spending, like the penetration of internet users and development of e-commerce, remains a few years behind North America.

Comparative Estimates: Online and Offline Advertising Expenditures in Markets Outside the US, 1999-2005 (in billions)

	1999	2000	2001	2002	2003	2004	2005
Datamonitor	$0.9	$1.5	$3.1	$6.7	$11.8	–	–
Deutsche Bank	$0.7	$1.5	$2.9	$5.0	$8.0	–	–
eMarketer	**$0.7**	**$1.6**	**$2.8**	**$4.8**	**$7.2**	**–**	**–**
Forrester Research	$0.5	$1.1	$2.3	$4.1	$6.9	$8.9	–
Jupiter Research	$0.8	$1.7	$3.0	$4.1	$6.5	$8.6	$11.2
Myers Group	–	$0.9	$1.4	$3.2	$6.9	$10.5	$13.0

Source: eMarketer, 2001; various, as noted, 2000

In 1997, the US accounted for 92% of the world's web advertising dollars. It declined to 82% in 2000 and will shrink further to 68% by 2003.

US Portion of Worldwide eAdvertising Dollars, 1997-2003

Source: eMarketer, 2001

Web advertising, much more so than offline advertising, will continue to be highly skewed towards the US market. This reflects the lead that the US has in internet penetration, e-commerce development, and, going forward, broadband connectivity. In addition, the US does not face the problems of multiple languages and cultures, and telecommunications businesses exist within a more accommodating regulatory environment.

Nonetheless, eMarketer's forecast for global web advertising spending anticipates relatively fast growth in non-US markets, particularly Europe.

Comparative Estimates: Global eAdvertising Expenditures, 1999-2005 (in billions)

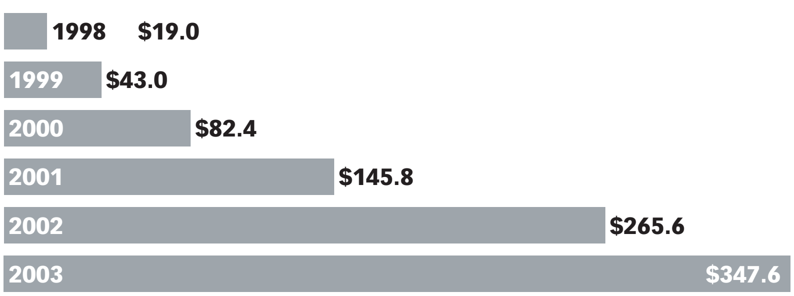
	1999	2000	2001	2002	2003	2004	2005
ActivMedia	$10.8	$19.0	–	–	–	–	–
Datamonitor	$4.9	$9.6	$15.7	$24.3	$36.5	–	–
Deutsche Bank	$5.0	$9.0	$14.9	$23.0	$33.0	–	–
eMarketer	**$4.3**	**$8.7**	**$10.4**	**$15.1**	**$22.6**	**–**	**–**
Forrester	$3.3	$6.5	$11.0	$16.7	$24.1	$33.1	–
IDC	$2.0	$3.3	–	–	–	–	–
Jupiter Research	$4.3	$7.0	$10.3	$14.1	$18.4	$22.9	$27.7
Myers Group	–	$5.3	$9.5	$13.6	$23.5	$33.7	$45.5
Ovum	–	$8.3	–	–	–	–	$83.2
Simba	$1.6	$2.5	–	–	–	–	–
Wit SoundView	–	–	$6.5	$8.4	–	–	–
Yankee Group	$1.9	$2.2	$3.8	$6.5	–	–	–

Source: eMarketer, 2001; Yankee, Simba, International Data Corp. (IDC), 1999; others, as noted, 2000

Canada

Web ad expenditures in Canada will grow from $82.4 million in 2000 to $347.6 million in 2003.

eAdvertising Expenditures in Canada, 1998-2003 (in millions)



Source: eMarketer, 2001

eMarketer's estimates are somewhat lower than the IAB's but above Forrester's relatively conservative projections for 2000.

Comparative Estimates: eAdvertising Expenditures in Canada, 1999-2005 (in millions)

Source	1999	2000	2001	2002	2003	2004	2005
Delvinia/ MMSG	$49.9	$95.8	–	–	–	–	–
eMarketer	**$43.0**	**$82.4**	**$145.8**	**$265.6,**	**$347.6**	**–**	**–**
Forrester Research	$26.0	$52.0	$93.0	$154.0	$238.0	$345.0	–
Internet Advertising Bureau Canada/Ernst & Young	$55.5	$109.0	–	–	–	–	–
Jupiter Research	$9.0	$90.0	$144.0	$268.0	$337.0	$323.0	$413.0

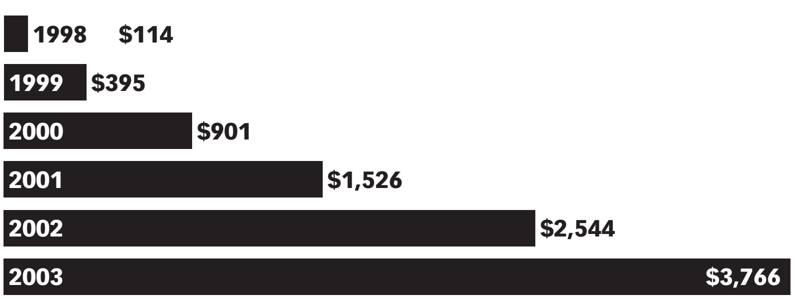
Source: eMarketer, 2001; various, as noted, 2000

Europe

The market for e-advertising is growing in Europe, although the region also has its share of obstacles. While the US has a more homogenous population, the European region is made up of a variety of languages and cultures. These factors require a different, more targeted approach for European advertisers and e-tailers. eCommerce in general has developed slowly with online advertising spending in Europe totaling only $395 million in 2000. However, projections have shown that rapid growth is expected, totaling about $901 million in 2001.

The expansion of internet penetration in Europe will fuel the growth of e-advertising in this region over the next few years.

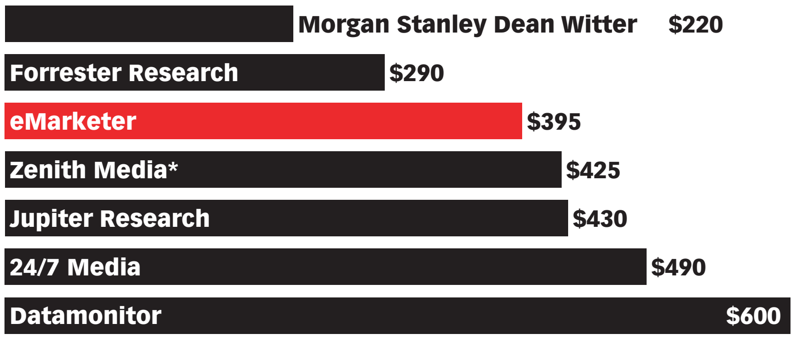
eAdvertising Expenditures in Europe, 1998-2003 (in millions)



Source: eMarketer, 2001; various, as noted, 2000

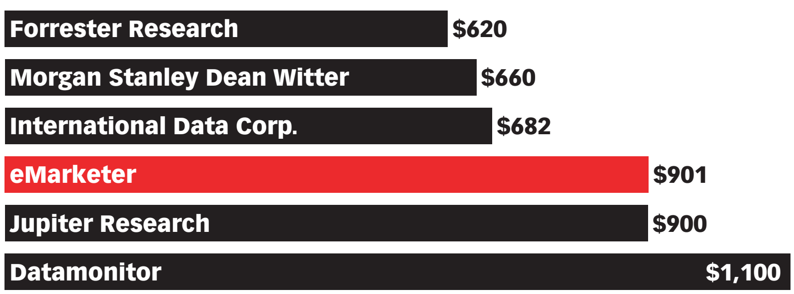
For 1999, Morgan Stanley and Forrester Research straddled eMarketer's estimate for European web ad spending on the low end and 24/7 Media and Data Monitor on the high end.

Comparative Estimates: eAdvertising Expenditures in Europe, 1999 (in millions)



*Note: *Based on aggregated figures from Germany, UK, Norway, France and Spain*
Source: eMarketer, 2001; various, as noted, 2000

Comparative Estimates: eAdvertising Expenditures in Europe, 2000 (in millions)



Source: eMarketer, 2001; various, as noted, 2000

eMarketer expects European web ad spending to reach $1.5 billion in 2001. Forrester has the lowest estimate for that year, at $1.2 billion, while 24/7 media projects $1.6 billion.

Comparative Estimates: eAdvertising Expenditures in Europe, 2001 (in billions)

Source: eMarketer, 2001; various, as noted, 2000

Comparative Estimates: eAdvertising Expenditures in Europe, 2004 (in billions)

Source: various, as noted, 2000

In addition to eMarketer's forecast, six other researchers have forecast increases in European web ad spending. Not only is there variation in the absolute numbers forecast, there is also variation in the timing of growth.

Forrester Research forecasts that European web advertising expenditures will reach $1.2 billion in 2001 and $5.5 billion in 2004. 24/7 Media projects that European online advertising expenditures will reach $1.6 billion in 2001 and $5.0 billion in 2004.

Jupiter Research is less optimistic, forecasting that total European online ad spending will rise from $1.5 billion in 2001 to $4.1 billion by the year 2004, and $5.3 billion in 2005.

Comparative Estimates: eAdvertising Expenditures in Europe, 1999-2005 (in billions)

	1999	2000	2001	2002	2003	2004	2005
24/7 Media	$0.49	–	$1.60	–	–	$5.00	–
DataMonitor	$0.60	$1.10	$2.20	$5.10	$9.40	–	–
eMarketer	**$0.40**	**$0.90**	**$1.53**	**$2.54**	**$3.77**	**–**	**–**
Forrester Research	$0.29	$0.62	$1.20	$2.17	$3.58	$5.48	–
International Data Corp.	–	$0.68	–	$2.17	–	–	–
Jupiter Research	$0.43	$0.90	$1.53	$2.26	$3.12	$4.11	$5.26
Morgan Stanley Dean Witter	$0.22	$0.66	$1.34	$2.00	$4.00	$5.50	–

Source: eMarketer, 2001; various, as noted, 2000

The UK was one of the early adopters of internet technology and is a leader in eAdvertising in Europe.

Comparative Estimates: eAdvertising Expenditures in the UK, 1998-2004 (in millions)

Source	1998	1999	2000	2001	2002	2003	2004
24/7 Media	–	$122.0	–	–	–	–	–
AdZone	–	–	$720.0	–	–	–	–
Fletcher Research	–	$79.7	–	$456.0	$763.9	–	$1,195.5
Forrester Research	–	$81.0	$177.0	$347.0	$597.0	$955.0	$1,414.0
Goldman Sachs	$25.0	$104.0	$238.0	$382.0	–	–	–
Internet Advertising Bureau	$31.0	–	–	–	–	–	–
IAB/PWC	$28.0	$69.4	–	–	–	–	–
Jupiter Research	–	–	$128.4	$319.0	–	–	–
Zenith Media	–	–	$185.4	–	–	–	–
Zenith Media	$39.7	$165.6	$378.6	$608.1	–	–	–

Note: AdZone is based on monthly data projected to full year
Source: various, as noted, 2000

Based on its GDP, and the sophistication of its industrial base, Germany has long been considered a leader in the European economy. This is continuing in the digital age: Germany is the biggest European eCommerce market despite having slightly less internet users than the UK. (Germany is projected to become the home of the most internet users in Europe within the next couple of years.)

Comparative Estimates: eAdvertising Expenditures in Germany, 1998–2004 (in millions)

Source	1998	1999	2000	2001	2002	2003	2004
24/7 Media	$43.0	$135.0	–	–	–	–	–
DM News International	$29.0	$90.0	$188.0	–	–	–	–
Forrester Research	–	$92.0	$202.0	$397.0	$730.0	$1,241.0	$1,861.0
Merrill Lynch/IDC	–	$88.2	$192.6	$379.4	$697.2	$1,184.8	–
Prognos AG	$82.0	–	–	–	–	–	–
Reuters	–	$75.6	$151.2	–	–	–	–
Zenith Media	–	–	$102.3	–	–	–	–

Sources: various, as noted, 2000

France, as compared to Germany and the UK, has been relatively slow to embrace the internet. By all accounts though France's progress going forward may be surprisingly fast.

Comparative Estimates: eAdvertising Expenditures in France, 1999-2004 (in millions)

Source	1999	2000	2001	2002	2003	2004
24/7 Media	$26.0	–	–	–	–	–
Forrester Research	$33.0	$71.0	$135.0	$243.0	$425.00	$679.0
DoubleClick France	$52.5	$75.0	–	–	–	–
Zenith Media	–	$85.0	–	–	–	–

Source: various, as noted, 2000

As with internet usage and e-commerce development, web advertising has grown rapidly in Scandinavia, currently one of the most wired regions in the world. Fueling growth in Scandinavia will be advertising through cell phones, which have penetration rates of over 60% in some countries.

The Scandinavian countries — Sweden, Norway, Denmark and Finland – were all early adapters of the internet, and have very high expenditures on advertising and eCommerce when measured on a per capita basis. Similarly, internet penetration, as noted above, is the highest in Europe. Consequently, the spending on web advertising is greater than one might expect based on population alone

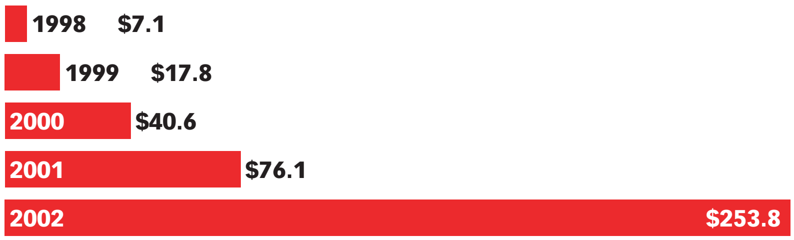
Comparative Estimates: eAdvertising Expenditures in Scandinavia, 1998-2004 (in millions)

Source	1998	1999	2000	2001	2002	2003	2004
24/7 Media	$49.0	$128.0	–	–	–	–	–
Forrester Research	–	$26.0	$49.0	$94.0	$153.0	$222.0	$355.0
itAffarer	$52.0	–	–	–	–	–	–
Jupiter Research	–	$103.2	$161.9	$267.4	$357.9	$455.8	$563.2

Source: various, as noted, 2000

Credit Lyonnais expects online advertising spending in Italy will grow from $7.1 million in 1998 to some $254 million in 2002.

eAdvertising Expenditures in Italy, 1998-2002 (in millions)



Source: Credit Lyonnais, 2001

Relatively weak advertising spending in Spain reflects the low internet penetration in the Iberian region.

Comparative Estimates: eAdvertising Expenditures in Spain, 1998-2002 (in millions)

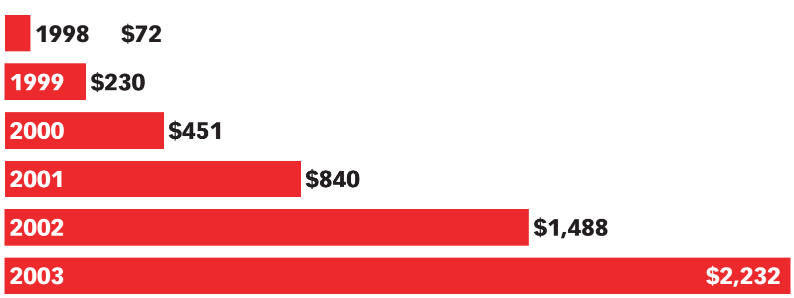
Source	1998	1999	2000	2001	2002
Agemdi (marketing association)	–	$67.4	–	–	–
Expansion	–	$14.7	$35.3	$70.6	–
IDC/WDR	$5.6	$14.0	$32.4	$66.0	$125.2
Zenith Media	–	–	$16.7	–	–

Source: various, as noted, 2000

Asia/Pacific

Analysts of the internet have long viewed Asia as a sleeping giant. China, with its vast population, is a potential web powerhouse. However, its relatively backward economy and authoritarian political system have so far limited internet penetration. This is likely to change gradually. Web ad spending in the Asia/Pacific Rim region was $451 million in 2000, growing to about $2.2 billion by 2003.

Ad Expenditures in Asia Pacific, 1998-2003 (in millions)



Source: eMarketer, 2001

In addition to eMarketer's forecast, eight other researchers have forecast Asia-Pacific web ad spending. The range can be seen, for example, in the forecast for 2001, where DoubleClick Asia estimates web ad spending will be $400 million, and Forrester expects $691 million. On the upper end of the range, Jupiter Research forecasts over $1 billion, and a forecast from Zenith Media and Goldman Sachs is $1.5 billion. eMarketer's forecast for 2001 year is $840 million.

Comparative Estimates: Ad Expenditures in Asia Pacific, 1999-2005 (in millions)

	1999	2000	2001	2002	2003	2004	2005
DoubleClick Asia	–	$200.0	$400.0	$800.0	–	–	–
eMarketer	**$230.1**	**$450.6**	**$840.0**	**$1,488.0**	**$2,232.0**	**–**	**–**
Forrester Research	$166.0	$346.0	$691.0	$1,235.0	$2,070.0	$3,322.0	–
i-advertising.com	–	$230.0	–	$1,600.0	–	–	–
International Data Corp.	$184.1	$364.6	–	–	–	$1,150.0	–
Jupiter Research	$249.0	$576.0	$1,015.0	$1,583.0	$2,210.0	$2,929.0	$3,786.0
Smith Barney	–	$175.0	–	–	–	$1,800.0	–
www.consult	–	–	–	–	$1,300.0	–	–
Zenith Media/ Goldman Sachs	$237.0	$788.0	$1,500.0	–	–	–	–

Source: eMarketer, 2001; various, as noted, 2000

With its highly developed economy and rapid growth of internet penetration, Japan is leading the way into the internet-based economy.

Comparative Estimates: eAdvertising Expenditures in Japan, 1998-2004 (in millions)

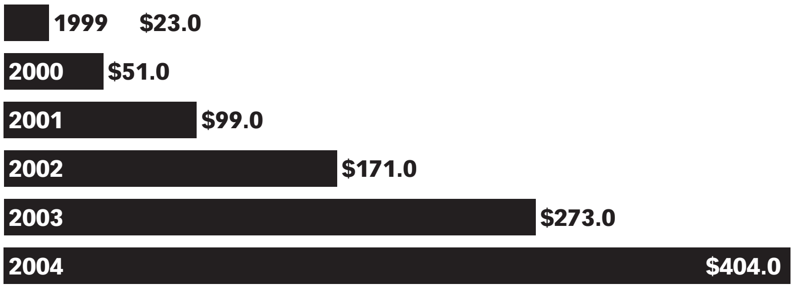
	1998	1999	2000	2001	2002	2003	2004
Asiacom	–	$184.1	–	–	–	–	–
Denshu	$114.0	$241.0	–	–	–	–	–
Forrester Research	–	$117.0	$234.0	$459.0	$789.0	$1,262.0	$1,944.0
Industry Standard	–	–	$420.0	–	–	–	–
Zenith Media	–	–	$226.5	–	–	–	–

Source: various, as noted, 2000

Forrester Research expects Australian online advertising spending to grow from $23 million in 1999 to $404 million in 2004

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

eAdvertising Expenditures in Australia, 1999-2004 (in millions)



Source: Forrester Research, 2001

China is a sleeping giant, caught in a dichotomy between its vast population, limited internet penetration and government-imposed restrictions on internet activities. It therefore will be a slow entrant in the web advertising market.

Comparative Estimates: Ad Expenditures in China, 1999-2005 (in millions)

	1999	2000	2001	2002	2003	2004	2005
Forrester Research	$8.0	$16.0	$40.0	$100.0	$220.0	$440.0	–
International Data Corp.	$9.5	$15.0	–	–	–	$250.0	–
Lehman Brothers	–	–	–	–	–	–	$293.0
www.consult	$6.0	$26.0	–	–	–	–	–

Source: various, as noted, 2000

Comparative Estimates: Ad Expenditures in Hong Kong, 1999, 2000 & 2004 (in millions)

	1999	2000	2004
BMC Media	–	–	$58.0
IAB Hong Kong	$17.5	–	–
International Data Corp.	$3.0	$5.5	–
www.consult	$5.0	$13.0	–
Zenith Media	–	$14.0	–

Source: various, as noted, 2000

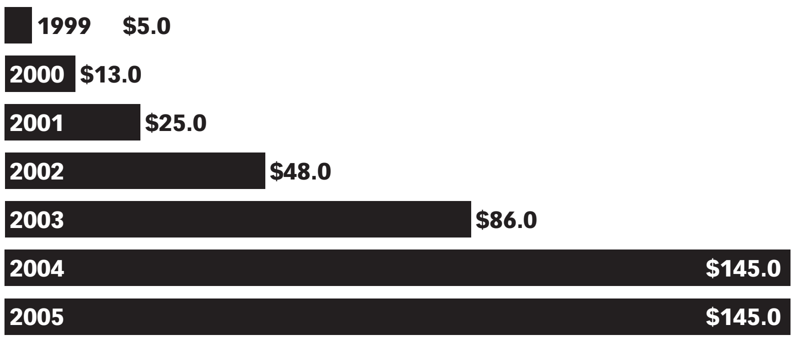
Comparative Estimates: eAdvertising Expenditures in Taiwan, 1999-2004 (in millions)

	1999	2000	2001	2002	2003	2004
Forrester Research	$4.0	$10.0	$20.0	$38.0	$68.0	$116.0
International Data Corp.	$5.8	$9.8	–	–	–	–
www.consult	$7.0	$29.0	–	–	–	–

Source: various, as noted, 2000

South Korea is comparable to Taiwan: a small but advanced country with high internet penetration.

eAdvertising Expenditures in South Korea, 1999-2005 (in millions)



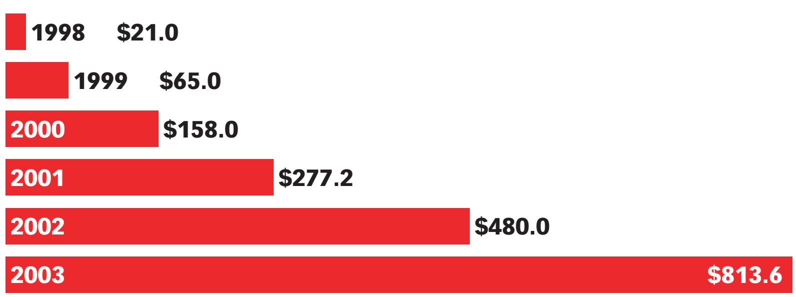
Source: Forrester Research, 2000

Latin America

In Latin America, online ad spending, like internet usage and online buying, has been relatively underdeveloped, in part due to weaker economies and a poor telecommunications infrastructure existent in many parts of Latin America.

Latin American web advertising spending was $65 million in 1999, and will climb to over $813 million by 2003.

eAdvertising Expenditures in Latin America, 1998-2003 (in millions)



Source: eMarketer, 2001

eMarketer's forecast falls in the midst of five others. On the low end is Jupiter Research, which estimates $127 million of web ad spending in 2000, growing to $1.1 billion in 2005. On the high end is a single data point from Gazeta Mercantil, a local source, which indicates that web ad spending was $287 million in the year 2000.

Methodology
Overview
US Market Size and Growth
The Dot-Com Meltdown
Slicing the Pie
Website Publishers
Who Are the Web Advertisers?
Industry Trends
Global Market Size & Growth
Appendices

Forrester Research estimates that the total online advertising market in Latin America was only $121 million in 2000, but that it will grow to nearly $1.7 billion in 2004, a year earlier than predicted by eMarketer's model. [Note that Forrester's estimates for growth in this market were revised upwards significantly in 2000.]

Comparative Estimates: eAdvertising Expenditures in Latin America, 1999-2005 (in millions)

	1999	2000	2001	2002	2003	2004	2005
eMarketer	**$65.0**	**$158.0**	**$277.2**	**$480.0**	**$813.6**	**–**	**–**
Forrester Research	$51.0	$121.0	$259.0	$517.0	$949.0	$1,647.0	–
Gazeta Mercantil	–	$287.4	–	–	–	–	–
International IAB	–	–	–	–	$645.0	–	–
Jupiter Research	$52.0	$127.0	$240.0	$402.0	$628.0	$888.0	$1,168.0
Zenith Media	–	$130.0	$253.0	$532.0	$1,210.0	–	–

Source: eMarketer, 2001; various, as noted, 2000

Brazil is the largest online advertising market in Latin America.

Comparative Estimates: eAdvertising Expenditures in Brazil, 1998–2004 (in millions)

	1998	1999	2000	2001	2002	2003	2004
AMI Association	$45	$90	–	–	–	–	$367
Forrester	–	$30	$69	$145	$283	$509	$890
Zenith Media	–	–	$91	$170	$342	$732	–

Sources: various, as noted, 2000

Comparative Estimates: eAdvertising Expenditures in Mexico, 1998-2004 (in millions)

	1999	2000	2001	2002	2003	2004
Forrester Research	$11.0	$28.0	$61.0	$127.0	$241.0	$422.0
Zenith Media	–	$3.0	$27.0	$66.0	$179.0	–

Source: various, as noted, 2000

eAdvertising Expenditures in Argentina, 2000-2003 (in millions)

Source: Zenith Media, 2001

Appendix A: Glossary

For the new and uninitiated, as well as those already immersed and highly experienced in the world of online advertising, we offer the following compilation of web ad terms.

Affiliate Marketing: A system of advertising in which site A agrees to feature buttons from site B, and site A gets a percentage of any sales generated for site B. It can also be applied to situations in which an advertiser may be looking for marketing information, rather than a cash sale. Popular among startups with very small marketing budgets. If we do each other's laundry, we'll all get rich, right?

Click-Through Rate: The percentage of web surfers who see a banner and click on it. At one time the granddaddy of web-marketing measurements, click-through is based on the idea that online promotions that do what they're intended to do will elicit a click. But click-through rates are plummeting. (Have you ever clicked on a banner?) So now agencies are backpedaling on click-throughs as a yardstick of success.

Impression: A unit of measure. One set of eyeballs glancing over one banner counts as one impression. Never mind that those eyeballs could belong to the family cat calling up a site with an errant paw. To the agencies that collect a fee for every thousand impressions (hence the term CPM – cost per thousand), 1,000 cats count.

Interstitial: The interstitial is a separate window of advertising that pops open spontaneously, blocking the site behind it. It is designed to grab consumers' attention for the few nanoseconds it takes them to close the window. The danger of course is that the attention achieved is perceived as an annoying intrusion.

Opt In/Opt Out: An e-mail marketing promotion that typically gives consumers an opportunity to "opt in" (taking action to be part of the promotion) or to "opt out" (taking action to not be part of the promotion). Marketers can be sensitive about the distinction, although many are secretly anxious about the day when e-mail, like real-world direct mail, becomes an opt-out medium.

Pay-per-Click: An advertising pricing model in which advertisers pay agencies based on how many consumers clicked on a promotion. Condemned by advertisers and agencies alike for its many marketing vagaries and technical loopholes.

Pay-per-Impression: An advertising pricing model in which advertisers pay agencies based on how many consumers see their promotions.

Pay-per-Sale: An advertising pricing model in which advertisers pay agencies based on how many consumers actually buy something as a direct result of the promotion. Despised by agencies for the wretched accountability it brings to their lives.

Stickiness: A measure used to gauge the effectiveness of a site in retaining individual users. The term is typically used in promotional material when traffic numbers are too low to be effective in lauding a site's performance. Never mind the quantity, feel the stick.

Targeted Marketing: Banners or other promotions aimed, on the basis of demographic analysis, at one specific subsection of the market.

Viral Marketing: Any advertising that propagates itself. When hotmail users send e-mail, they unwittingly "infect" the recipient with the tagline at the bottom of the message. Jupiter Research claims the pass-along rate for viral marketing ploys is 81%.

Appendix B: Index of charts

B. Seasonality

US eAdvertising Expenditures, Q1-Q4 2000 (in billions and as a quarter-to-quarter % change)

Average Quarterly Growth Rate of US eAdvertising Expenditures, 1996—2000

US eAdvertising Expenditures, Jan 2000 – Jan 2001 (in billions)

US eAdvertising Expenditures, by Month, 2000 (in millions)

US Advertisers Coming Online for the First Time, 2000

New Brands Advertising Online in the US, January-September 2000

III The Effect of Dot-Com Meltdown

US Dot-Com Advertising Expenditures, by Media, 1999 (in millions)

US Dot-Com eAdvertising Expenditures, 1999 & 2000 (as a % of total e-advertising)

US Dot-Com Advertising Expenditures, by Channel, 1999 & 2004

US Digital Marketing Expenditures, by Type of Advertiser, 2000 & 2005

US Dot-Com Share of TV Advertising Expenditures, 2000

US Dot-Com eAdvertising Expenditures as a % of Total Expenditures, Q1 1999- Q2 2000 & 2002

IV Slicing the Pie: Traditional Media vs. the Internet

A.Spending Growth

US Year-on-Year Growth of Advertising Expenditures, 2000

US Year-on-Year Growth of eAdvertising Expenditures, 2000

Growth in US Advertising Expenditures, 2001

Growth in US Advertising and eAdvertising Expenditures, 2001

US eAdvertising Expenditures, 1997-2005 (in billions and as a % of total Expenditures)

US Online Advertising Expenditures, by Media, 2000 (in billions)

US Advertising Expenditures, by Media, 2001 (in billions)

US Expenditures, by Media, 1997-2003 (in billions)

Growth in US Advertising Expenditures, by Media, 2000 vs. 1999

Growth Rates for US Traditional and eAdvertising Expenditures, 1998-2005

US Traditional and eAdvertising Average Annual Growth Rates 2000-2005

B. Time Spent on Various Media

Daily Use of Advertising Media Among US Consumers, 1998-2003 (in minutes)

Annual Use of Advertising Media Among US Consumers, 2000 & 2004 (in hours)

Daily Use and Reach of Advertising Media Among US Consumers, 1999

Two-Year Growth in Time Spent on Media by US Consumers, 2000

US Advertisers Who Plan to Increase Their Ad Expenditures, by Media, 2000

eBusiness Marketing Investment Priorities Among Online Marketers, 2000

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- Market size & growth
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- Usage patterns
- Customer satisfaction

Broadband
- Users by access method (dial-up, fiber, DSL, cable, satellite, wireless)
- Residential and business usage
- Access revenues
- User demographics
- Country profiles

eAdvertising
- eAdvertising revenues worldwide
- Spending by ad format (banner ads, sponsorships, e-mail, etc.)
- Spending by industry category
- Measurements and standards (click-through rates, CPMs, ROI)

eAsia
- Economy & infrastructure
- Internet users & demographics
- eCommerce, eFinance & eAdvertising
- Country profiles

eBanking
- Online banking around the world (US, Europe, Asia)
- Mobile banking
- Electronic bill presentment and payment

eBrazil
- Economy & infrastructure
- Internet users & demographics
- eCommerce, eFinance & eAdvertising

eCommerce: B2B
- eCommerce: B2B revenues around the world, country by country
- eCommerce: B2B by industry
- Internet penetration among businesses
- Online marketplaces, auctions and exchanges

eCommerce: B2C
- eCommerce: B2C revenues worldwide
- Top B2C categories
- Online shoppers, buying frequency and size of transactions
- eConsumer attitudes and behaviors

eDemographics
- User demographics worldwide
- Age, gender and race
- Income, education and occupation
- Usage patterns

eEurope
- Economy & infrastructure
- Internet users & demographics
- eCommerce, eFinance & eAdvertising
- Country profiles

eGlobal
- Internet infrastructure, by region
- Users and usage, by region
- eDemographics, by region
- eCommerce, by region

eHealth
- Consumer demographics and attitudes
- Healthcare personnel, demographics and usage
- B2C spending
- B2B spending

eInvesting
- Online brokerages
- Online mutual funds
- Online asset management
- Online investment advice

eJapan
- Economy & infrastructure
- Internet users & demographics
- eCommerce, eFinance & eAdvertising

eLatin America
- Economy & infrastructure
- Internet users & demographics
- eCommerce, eFinance & eAdvertising
- Country profiles

eMail Marketing
- eMail marketing revenues worldwide
- eMail users and user demographics
- Permission, opt-in and opt-out
- eMail marketing techniques and strategies

ePrivacy & Security
- Consumer attitudes & behavior toward online privacy
- Online fraud
- Credit card security
- Corporate security (hacking and denial-of-service attacks)
- Virus attacks

eWireless
- Mobile internet use around the world, country by country
- mCommerce
- mFinance
- mAdvertising

Interactive Television

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- Revenue forecast
- Business attitudes & behavior
- User attitudes & behavior

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For media inquiries:
Gary Galati, Communications director, ggalati@eMarketer.com

For inquiries about this report or other eMarketer reports:
Marius Meland, editor, mmeland@eMarketer.com