

The State of Online Advertising

Data Covering Fourth Quarter 2000

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Inside:

January, 2001 Review

- Due to seasonality, online ad impressions in January are down 7.5 percent from December 2000. Only the Web Media category did not show a decline between December and January
- While impressions are down overall, they have grown steadily from week to week throughout January
- Amazon.com still reigns as the web's largest online advertiser with double the impressions of the closest competition
- MSN and Yahoo! cement their position as top web sites

Intelligence Report: The State of Online Advertising – Fourth Quarter 2000

- The industry remains dominated by dot coms – 55 percent of companies advertising online have dot com origins
- House advertising accounts for 28 percent of online advertising inventory
- 79 companies account for half of all online advertising
- The majority of advertisers purchase 1 site and run their ads for less than 3 weeks
- The web has become a branding medium – 63 percent of impressions have a branding focus
- Portals and search engines host the most ad impressions – 44 percent
- Average rate card is down to \$28.28 from \$31.09

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Executive Summary

January 2001 Results: Down, But Certainly Not Out

January 2001 Overview: Online advertising impressions declined 7.5 percent in January from December 2000. With the exception of the “Web Media” group of advertisers that grew 4.4 percent during January, every other industry declined. The biggest declines were among auto advertisers (-42.9 percent) and hardware and electronics advertisers (-26.7 percent).

Notwithstanding these statistics, most other online advertising metrics call for cautious optimism. Note the following:

- *Growth during the month.* There has been a consistent upward trend in ad impressions each week during January: the week of January 29, 2001 grew to 14.6 billion impressions, the same level achieved as recently as the week of December 11, 2000. Impressions for the week of 1/29/2001 were only 2 percent below the weekly average for December 2000.
- *Seasonality and a maturing market.* In all other media, January always exhibits a strong seasonal correction after the strong holiday ad blitz. This is the first year that seasonal trends are emerging in the online space. While this may indicate that the era of online ad “hyper growth” is behind us, there is scant little evidence to indicate that the upward trend in ad impressions will not continue.
- *Previous monthly declines.* Since we’ve been tracking online advertising since July 1999, there have been 4 monthly declines, including the recent January results. The largest decline: a 15.8 percent decline in April 2000 after which ad impressions continued their upward surge.

Advertisers leading the charge: Amazon.com was once again the largest online advertiser with 3.6 billion impressions. The fastest growing advertisers in the Top 10 included AstroCenter.com that quadrupled its advertising presence, Wal-Mart that doubled, and NextCard that grew by 66 percent. The Top 10 advertisers in January accounted for 20 percent of all ad impressions.

Jockeying among sites: As two of the faster growing properties on the web, where are AstroCenter.com and Wal-Mart placing their ads? The portals are selling and selling hard: 95 percent of AstroCenter.com’s ad impressions are appearing on Yahoo!, and 95 percent of Wal-Mart’s ad impressions are appearing on Excite. By contrast, Amazon.com continues to spread the wealth: 38 percent of their ad impressions appeared on MSN, 20 percent on AOL.com, and 14 percent on Netscape.

What’s Inside: This month’s Online Media Planning report includes a detailed analysis of Q4, 2000 trends. From the state of advertisers and web sites, to the state of rate cards and ad dimensions, all you ever wanted to know is covered inside.



Charles Buchwalter
Vice President Media Research
AdRelevance, a Jupiter Media Metrix company

Advertiser Update – January

As a testament to the ever-changing state of online advertising, only three of last year's top 15 advertisers made the list this year. Amazon.com, the clear leader, secured twice as many impressions as their closest competitor BarnesAndNoble.com.

Traditional retailer Wal-Mart rose to the top in January after a slow start last year. Also showing strong gains was AstroCenter.com, who shot up the rankings to fifth place.

Fig. 1 Top 15 Advertisers by Impressions
January 2001

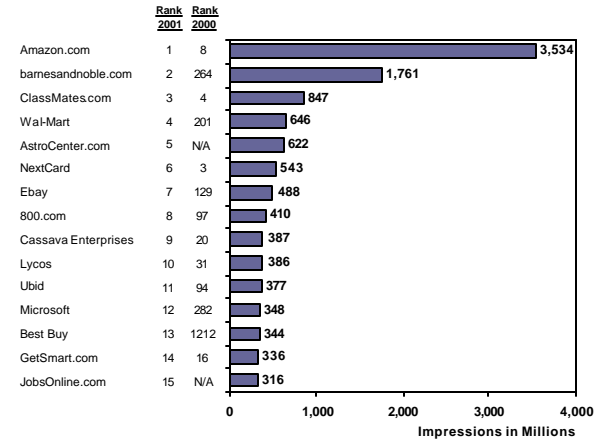
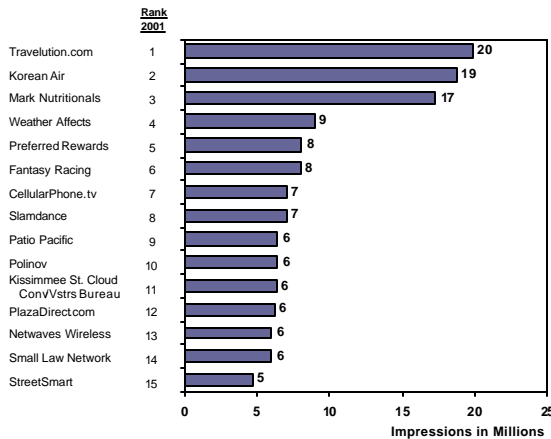


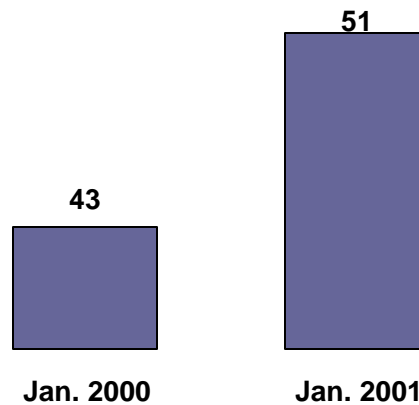
Fig. 2 Top 15 New Advertisers by Impressions
January 2001



Online travel agent Travelution.com edged out Korean Air for the top new advertiser of January. Part of the online arm of Rosenbluth International, Travelution.com seeks to take the travel experience to a simpler level by offering services to anticipate and fulfill the needs of harried travelers.

The Travelution.com campaign in January focused on promoting their FareGuardSM service designed to allow travelers to re-book flights if a cheaper fare becomes available.

Fig. 3 Number of Companies that Account for
50 Percent of Ad Spending – January 2001



While many companies flexed their online muscles over the holiday season, in January only 51 companies accounted for 50 percent of all advertising spending.

While this number is up over 1999, just a month ago the number was higher with 80 companies accounting for 50 percent of online advertising. The decline is partially due to a seasonal effect, a similar decline was observed between Dec. 1999 and Jan. 2000.

Website Update – January

While the dominant players gain and lose ground from month to month, seven of last years top 15 websites are back again in 2001.

MSN and Yahoo! still blaze a trail for the rest of sites. While MSN benefits from online powerhouse Amazon.com, Yahoo's top advertisers include the New York Times, Network Solutions and the Washington Post.

Fig. 4 Top 15 Web Sites by Ad Impressions January 2001

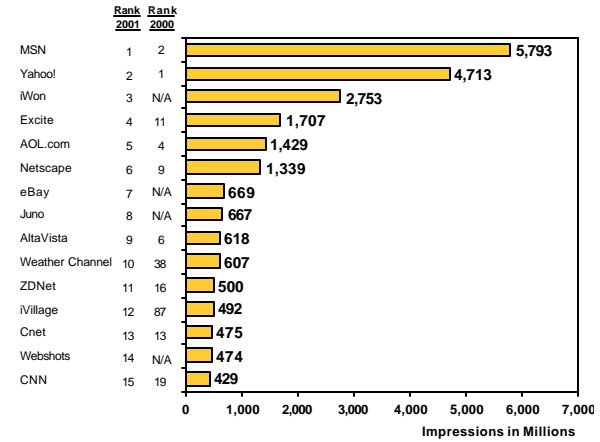
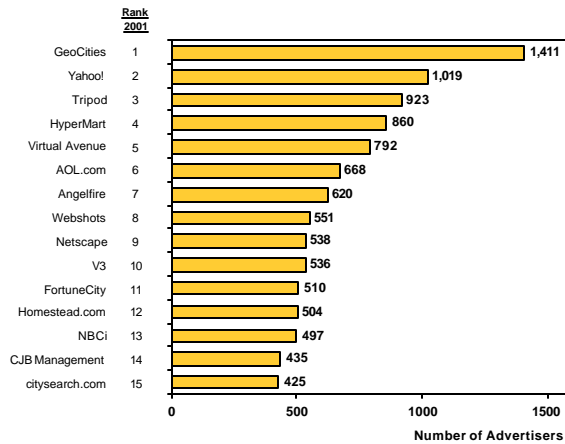


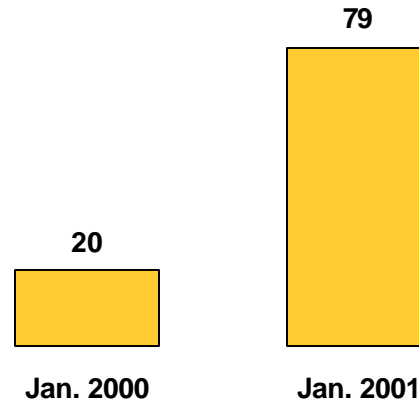
Fig. 5 Top 15 Web Sites Ranked by Number of Advertisers – January, 2001



While portals pull in a significant number of impressions, it's the community sites that score with many advertisers. GeoCities, Tripod, HyperMart and Virtual Avenue take four of the top five spots.

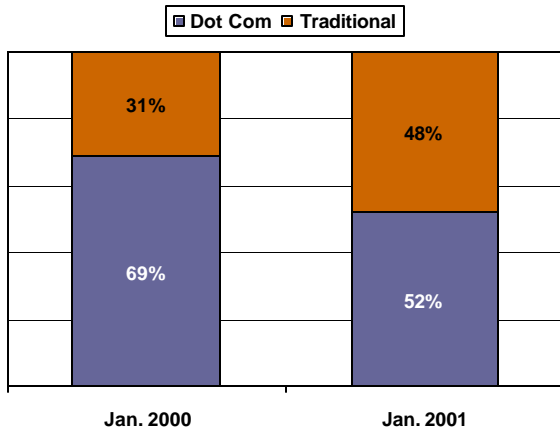
The number of websites sharing the advertising pie has increased over January 2000; and it appears to be steadily climbing. Jan. 2001 is up 10 sites from Dec. 2000's score of 69 sites accounting for 80 percent of ad revenue.

Fig. 6 Number of Web Sites that Account for 80% of Ad Revenue – January, 2001



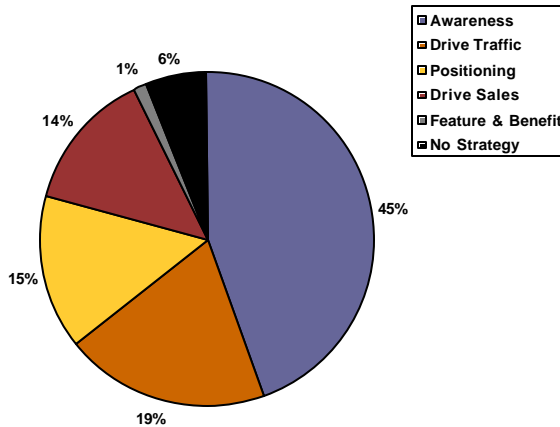
Ad Metric Update – January

Fig. 7 Percentage of Advertisers that are Dot Com vs. Traditional – January 2001



Websites wait with baited breath for traditional companies to pick up the slack in the online ad market. But they may be in for a long wait. While traditional companies are starting to spend ad dollars online, the growth is slower than the rate of dot coms running out of capital – 16 percent growth in one year.

Fig. 8 Advertising Strategy Breakdown January, 2001



Branding has taken over from direct marketing as the tactic of choice for online advertisers in 2001. A full 45 percent of the ads observed in January focused on building brand awareness, while another 15 percent sought positioning strategies.

Innovative Advertiser of the Month:



Ads Shown at 30% of actual size

Oracle takes the innovative advertiser honors for the month of January. Oracle used the most vertical banners for the month of January, and further showcased their innovative side by becoming one of the first advertisers to embrace CNET's new oversize Flash™ ad format.

Intelligence Report:

The State of Online Advertising – Fourth Quarter 2000

Contrary to popular buzz, the online advertising bubble showed no sign of bursting in the fourth quarter. Instead we saw the continuing evolution of a maturing advertising medium, morphing daily to form better solutions for advertisers and new revenue streams for hosts. The result of multiple influences acting on a group, the process of evolution forces some attributes of that group to survive and others to die off. Similarly, several aspects of the online advertising market outlined in the following chapters showed change in the fourth quarter that will ultimately alter the way advertisers reach their online audience.

Seasonality: In Chapter 1 we discuss how the holiday advertising push led to growth in all online ad industries except business-to-business. Pushing their campaigns to the limit to counter growing consumer wariness, retailers ramped up 63 percent over the beginning of the quarter. When those levels came back down in January, we witnessed an excellent verification of the increasingly seasonal nature of online advertising.

Traditional Advertisers: Also in Chapter 1, we posit that along with seasonal fluctuations came more traditional advertisers into the market. Up fifteen percent to nearly 45 percent of the market in the fourth quarter, these advertisers with offline interests will help boost the viability of a market that has previously been dominated by the dot com dollar.

House Advertising: Chapter 2 moves on to discuss the increase in house advertising over the third quarter to an average of 28 percent of all ads. While this may prompt concern over the profitability of some major ad-supported properties, the increase may simply be a natural response to a greater demand for ad space as well as higher traffic numbers across the Internet. Growth in site visitors requesting pages can often exceed the growth of new advertisers to fill those pages. As such, the increase in house advertising may simply be an instance of growing pains.

Market Entry: Chapter 3 outlines how online advertising continued to be the easiest and cheapest way for a small company to reach millions of people. The majority of online advertisers favored short campaigns and took up only a miniscule share of market. Purchasing ad space in a newspaper with a million readers doesn't guarantee a million ad views, while purchasing that same space online does guarantee that opportunity. More and more advertisers are becoming aware of this, and the market shows no sign of curbing its high rate of advertiser entry.

Campaign Strategy: In Chapter 4, we discuss how direct marketing tactics offering incentives and pushing for instant action diminished over the third quarter, yielding to a now 63 percent branding dominance of impressions. Concomitantly, the

majority of all advertisers chose a branding strategy as their favorite approach; further verifying that 'click-through' could be a dead metric in 2001.

New Ad Types: Chapter 5 cites examples of innovators such as CNET and ESPN.com, who broke new ground with the introduction of their super-sized banners that can't be missed. Big-budget advertisers will be satisfied with the flashy new medium, but the complexity of technology and expense that these ad types entail may force smaller advertisers and agencies to stick to traditional banner dimensions. Websites continue to host more dimensions than advertisers are using, thus for the time being there should be no shortage of creative outlets in the online ad space.

Portals Reign Supreme: In Chapter 6 we talk about how despite the disappearance of many content-based business models, portal websites still host 40 percent of the growing online ad market. Advertisers favored the broad reach of these portals over the specificity of special interest sites.

Rate Card: The final Chapter discusses the current downward trend in rate card prices. The average rate for one thousand impressions (CPM) dropped to approximately \$28, down nearly three dollars from the previous year. While this suggests that website revenue will drop, it also means that the cost of entry into the market is lower, giving new advertisers greater incentive to hop aboard. Early increases in 2001 impressions levels indicate advertisers are taking advantage. Economically, we could be witnessing a process of market price optimization rather than a collapse.

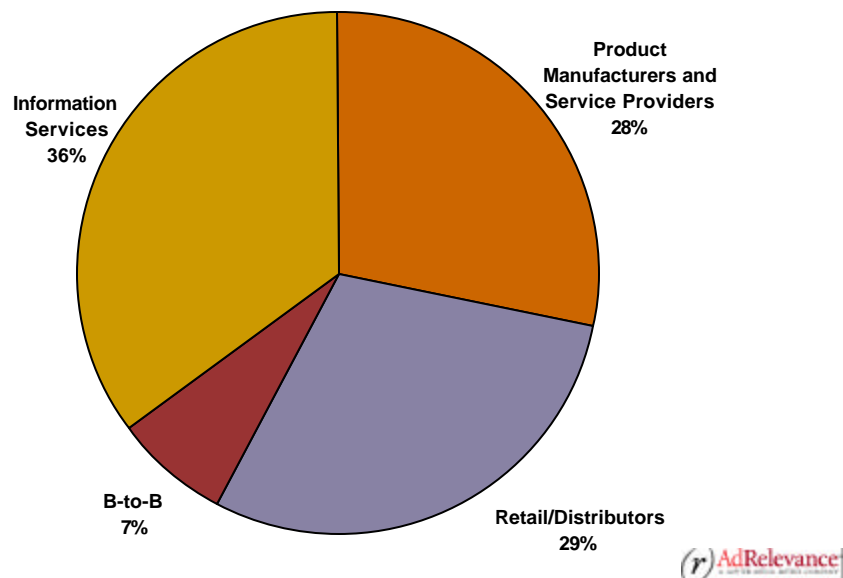
Over the course of 2001, these factors will interplay with each other to perpetuate the ever-changing nature of online advertising. Lower costs will mix with better options in ad types to create an attractive mix for marketers. Traditional advertisers and traditional advertising strategies such as branding will continue to grow and play an important role in the fiduciary success of ad-revenue supported online companies. As a result, the online ad market will assume traditional attributes such as seasonality and even more intense competition for share of voice. The unpredictable Internet advertising story for 2001 has yet to be written, but one thing is certain: it will be a best seller.

Chapter 1 – The State of the Industries

Despite media negativity toward the online advertising industry in late 2000, weekly impressions and spending figures reached their highest levels ever, and overall the number of online advertisers increased by 45 percent over the third quarter. Fueling an enormous holiday advertising surge, companies such as Amazon.com and BarnesAndNoble.com inked partnerships with major portals and saturated the web with ads in record numbers. To better understand the sources of growth, companies can be segmented into four industries: information services, product manufacturers & service providers, retailers & distributors, and business-to-business.

Information services, consisting of over 5 thousand companies, most of whom run content websites, placed the most ads online by purchasing 36 percent of all impressions during the fourth quarter. Retail and distribution companies, powered by e-commerce behemoths Amazon.com and BarnesAndNoble.com, placed the second largest number of ads with 29 percent of the market. Hot on their heels were product manufacturers and service providers, consisting of over 5,600 companies, and ranking as the third largest industry at 28 percent of impressions. Business-to-business companies, while still growing, only took up a paltry seven percent of the market.

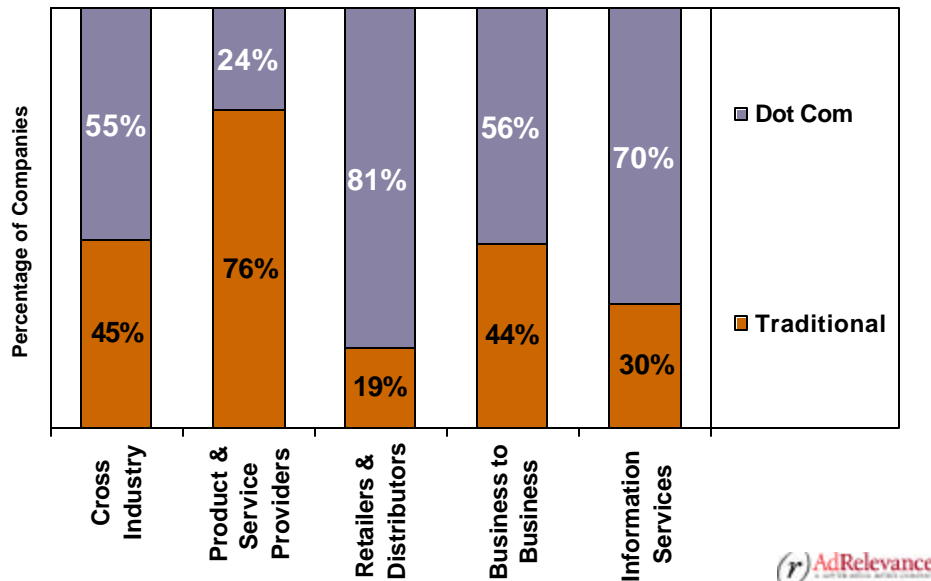
**Fig. 9 Share of Advertising Impressions by Industry
Fourth Quarter 2000**



Comparing industry size only in terms of impressions paints an incomplete picture; the state of the advertising economy comes into focus with a breakdown of company type within each industry. One of the biggest topics of 2000 was the potential emergence of more traditional companies and advertisers online, possibly making

up for the losses experienced by many dot coms. In the third quarter, traditional advertisers made up about 30 percent of the companies in the market. The fourth quarter saw an increase in that number to approximately 45 percent.

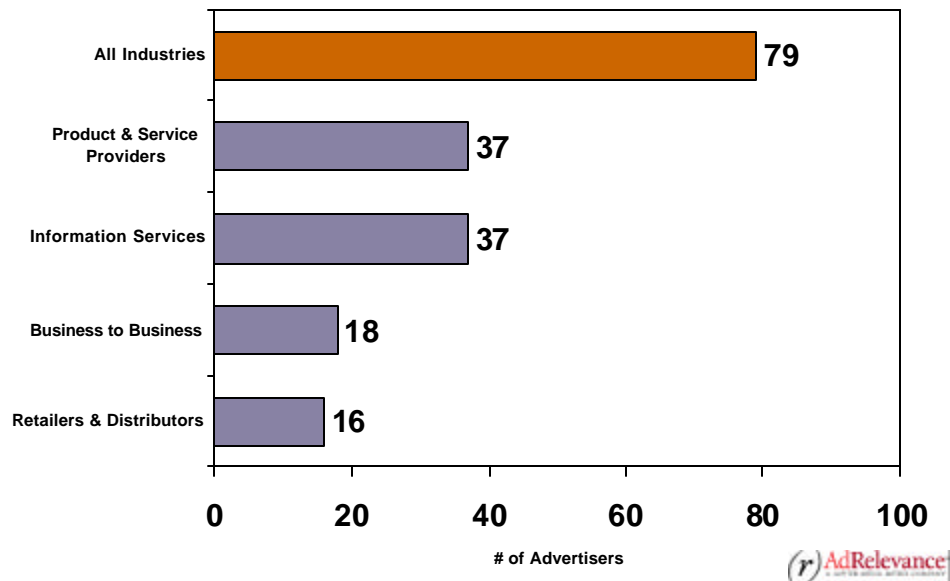
**Fig. 10 Dot Com vs. Traditional by Industry
Fourth Quarter 2000**



Product and service providers, a typically brick-and-mortar industry, was dominated by traditional companies at 76 percent. That concentration is by far the largest, as the remaining three industries were dominated by dot com companies. Retail and distribution advertisers saw a low 19 percent concentration of traditional companies. Business-to-business advertisers pulled close to even at 44 percent traditional, and information services—dominated by the top web portals—held at 30 percent traditional.

The skew seen in the business model breakdown of the fourth quarter manifested itself differently when it came to advertiser concentration. Measuring the number of advertisers it takes to account for 50 percent of all ad impressions in an industry yields a measure of competitive atmosphere. Do a few companies purchase the majority of impressions, or are the top advertisers close in volume and always changing?

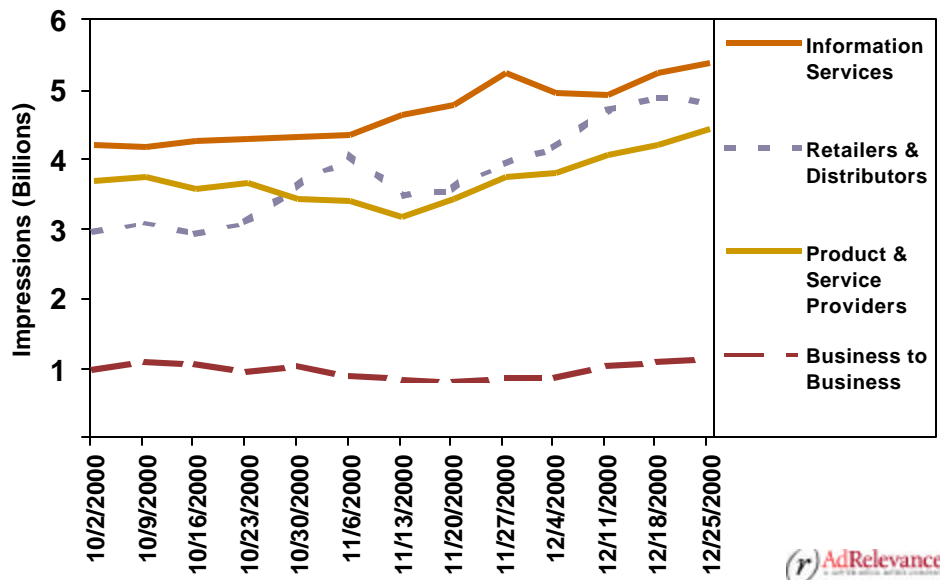
Fig. 11 Number of Advertisers Making Up 50 Percent of All Online Advertising – Fourth Quarter 2000



In the product manufacturing and service sector, 37 advertisers accounted for half of all the impressions; the same number applied to information service advertisers. This wide dispersion of share of market indicates that there are many large competitors at the top of their respective industries, and no one company dominates. Looking at the business-to-business and retail sectors we see the opposite story, as only 18 and 16 advertisers laid down half the ads in their industries. Low concentration figures such as these indicate that one or a few top advertisers dominate ad spending with a huge share of voice. A perfect example of this phenomenon lies in the business-to-business sector, where Network Solutions has ranked among the top ten advertisers for 57 weeks consecutively, and currently owns a share of voice around 15 to 20 percent.

Network Solutions may have been a point of strength for the industry, but despite their aggressive spending the business-to-business sector was the only industry not to experience intense growth through the holiday shopping season. Online advertising as a whole reached its high water mark in the last week before Christmas, surging 21 percent over November 2000 levels.

**Fig. 12 Growth in Ad Impressions by Industry
Fourth Quarter 2000**



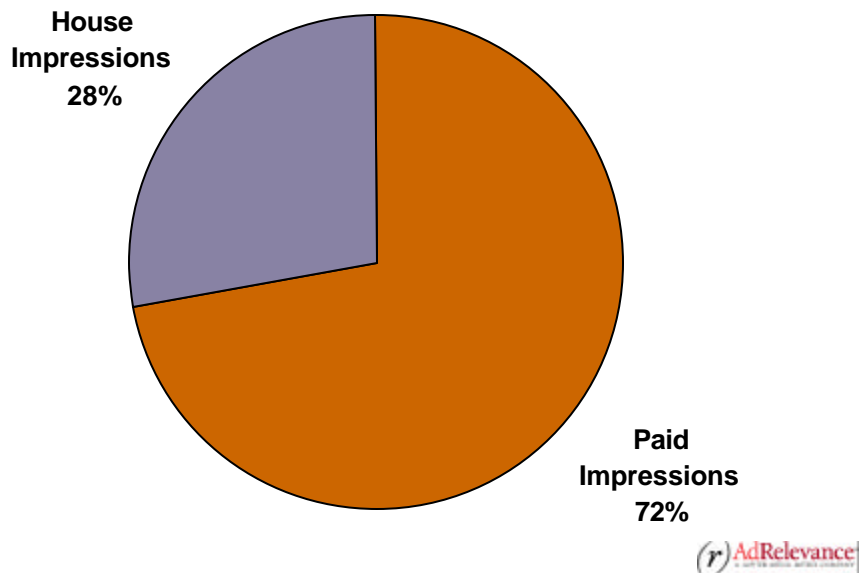
Growth led by online retail firms sent impressions soaring through the end of December, with holiday sellers hoping to quell the tide of decreasing consumer confidence. Amazon.com pushed retail to an astounding 63 percent gain, the largest of any industry. Information services saw a 28 percent expansion of impression volume, while the product manufacturing and services industry clocked in with a 20 percent gain. Business-to-business advertisers, harder pressed to offer holiday deals on their extensive offerings, only boosted marketing online by 15 percent.

While the industry was showing strong growth throughout 2000, impression growth was constantly tempered by the amount of house advertising being done. In a naturally growing market the amount of house advertising remains constant but in periods of decline house advertising often fills more ad space resulting in lower revenues.

Chapter 2 – The State of House Advertising

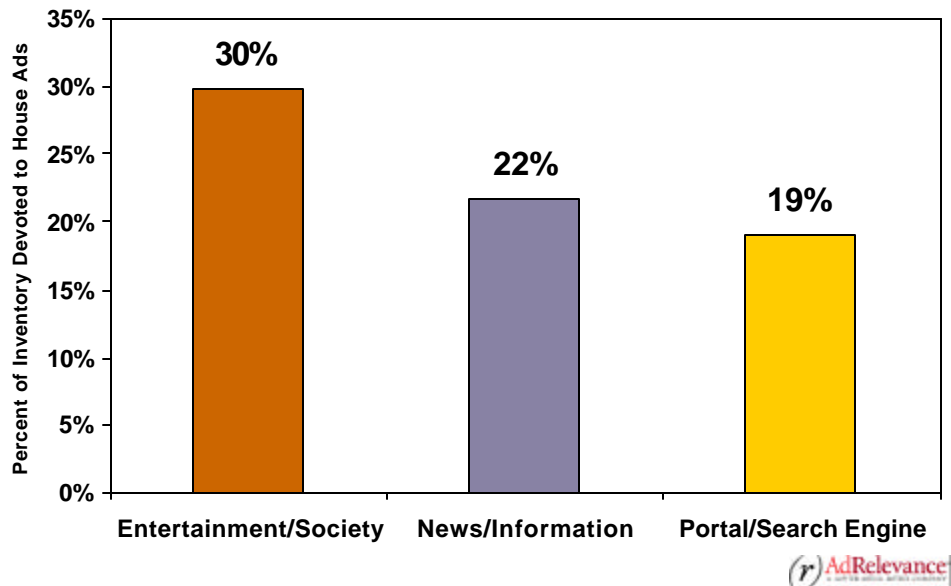
Indicative of the health of online advertising is the percentage of impressions that are done in-house, that is to say impressions that are placed by advertisers within the site's ownership. High levels of house advertising are undesirable for any company who runs a primarily ad-revenue based business, indicating a large inventory of unsold ad space. During the fourth quarter eleven sites accounted for 50 percent of all ad revenue, 28 percent of online advertising impressions viewed on those sites were non-paid house ads.

**Fig. 13 Paid vs. House Ads
Fourth Quarter 2000**



Websites within the portal and search engine genre are especially sensitive to house advertising, as many of these sites rely on advertising as their primary revenue stream. Top sites in this genre include MSN, Yahoo!, and AltaVista. Fortunately for these sites, their percentage of non-paid ads remained at a steady 19 percent—well below the industry average—over the third and fourth quarters.

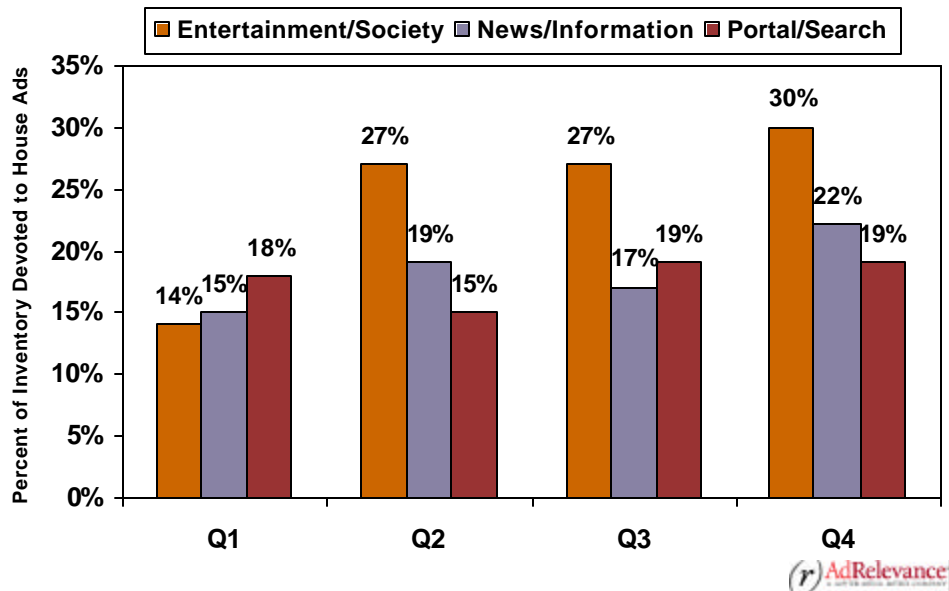
**Fig. 14 Percent House Ads by Genre
Fourth Quarter 2000**



The biggest house ad culprits were entertainment and society related websites, top examples of which are iWon, eBay, and ESPN.com, gaining revenue from only 70 percent of their ads while using the rest of their space for self-promotion. News and information sites such as The New York Times, CNN.com, and USA Today lie in the middle of the house advertising scale, yielding 22 percent of their ad space to in-house promotion. While that number may seem high, the “click and mortar” business model attached to some of these site’s owners suggests that they would be less concerned with unsold ad space than companies who have no offline interests.

Still, over the course of 2000, house advertising levels as a percentage of overall paid impressions inched upwards. The first quarter saw rates hovering around 15 percent, then climbing into the 20’s by the end of the year.

**Fig. 15 Percent House Ads by Genre
First through Fourth Quarter 2000**



Entertainment and society websites gained their huge disparity over the rest of the industry early in the year. The other genres showed steady increases, and in some instances showed decreases in house advertising between quarters.

While one may quickly surmise that the increase in house advertising was the result of the weakness of online advertising, more factors come into play than meet the eye. The online ad industry grew by leaps and bounds last year, with thousands of new advertisers entering the fray. House advertising may have grown larger as a proportion of all ads, but the number of online ads grew substantially as well. While sites conducted more house advertising, they also pulled in more revenue from paid ads. Also contributing to the rise in house advertising is the steady increase in web users. In the world of television advertising an ad is shown whether there is someone watching to see it or not. On the other hand web advertisements are only delivered when there is a user available to see the ad. As such, increases in web traffic require more advertising to be delivered – often creating more house ads as sales teams rush to fill in the gaps.

Chapter 3 – The State of Media Buying

Unlike television with its cost barriers, running an advertising campaign on the Internet can be very cost-effective. In fact, a small business that develops their creative in-house could end up with out of pocket costs starting from less than a dollar.

While this example somewhat exaggerates the cost of advertising online, it also explains why there were over 35,000 companies advertising online during the holiday season. Considering that only 79 companies accounted for 50 percent of all online advertising in the fourth quarter, one might ask *are all of the 35,000+ companies advertising online scheduling enough impressions to create value?*

Campaign Size Averages Fourth Quarter 2000

Mean campaign size in impressions	10,615,700
Median campaign size in impressions.....	27,300

The answer is complicated. Perhaps the less than 27,300 impressions that half of all advertisers scheduled in the fourth quarter translated into sufficient leads or sales to justify the cost of the campaign. On the other hand they could have produced little to no result. Effectiveness needs to be evaluated on a company-by-company basis.

To put perspective on the effectiveness question, online media can be compared to some basic analysis of offline media. This may help to provide insight into the value of the exposure online advertisers achieve.

Take the newspaper as an example. National papers generally offer a daily circulation of over one million people. An advertiser buying an ad in the New York Times has the opportunity to reach a million or more people in one day – much more exposure than the majority of online advertisers achieve. An advertiser in the Hagerstown Maryland local paper, *The Morning Herald*, has the opportunity to reach 20,600 paid readers.

Newspaper Daily Weekday Circulation

New York Times.....	1,100,000 paid readers
Philadelphia Daily News	154,000 paid readers
The Morning Herald (Hagerstown, MD).....	20,600 paid readers

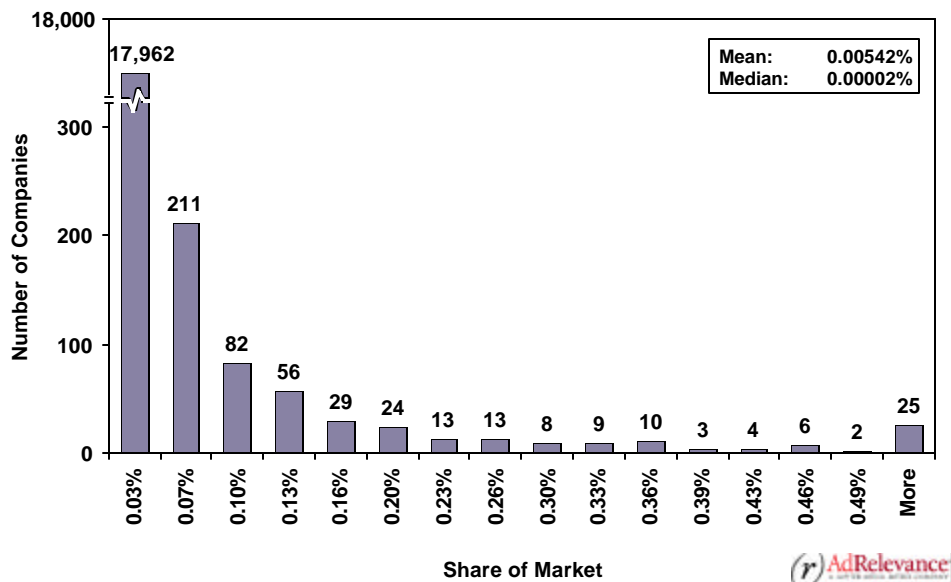
One weekday ad in The Morning Herald has the potential to reach almost as many people as the average online ad campaign reached in all of the fourth quarter. Compared to newspapers, online advertising may seem to provide smaller audiences, but the comparison is not completely fair.

When buying advertising in a newspaper an advertiser is buying the opportunity to reach the paid circulation. Not everyone who buys the paper will see the advertiser's ad and there is the potential to see the ad more than once. On the other hand the dynamic nature of the Internet means that advertisements are only served when there is someone there to see them. While advertising online does not guarantee that the viewer will see the ad, especially when placed at the bottom of the page, it does increase the chances significantly.

Many advertisers who spend a large portion of their ad budget in offline media tend to find this concept difficult to grasp. Fundamentally the Internet tears down the idea of the media buy being the same size as the audience. Instead online advertising is sized based on the number of impressions the advertiser wants. The Internet even allows advertisers to place conditions on those impressions. For example, an advertiser may want to purchase 10,000 impressions but have those impressions served to 5,000 people twice. This flexibility in media sizing makes it easier for the Internet to cater to smaller companies because they are not restricted by the size of the audience.

In fact the online ad market appears to be full of advertisers scheduling smaller campaigns. Share of market analysis highlights the fact that a few big spenders support the online advertising economy.

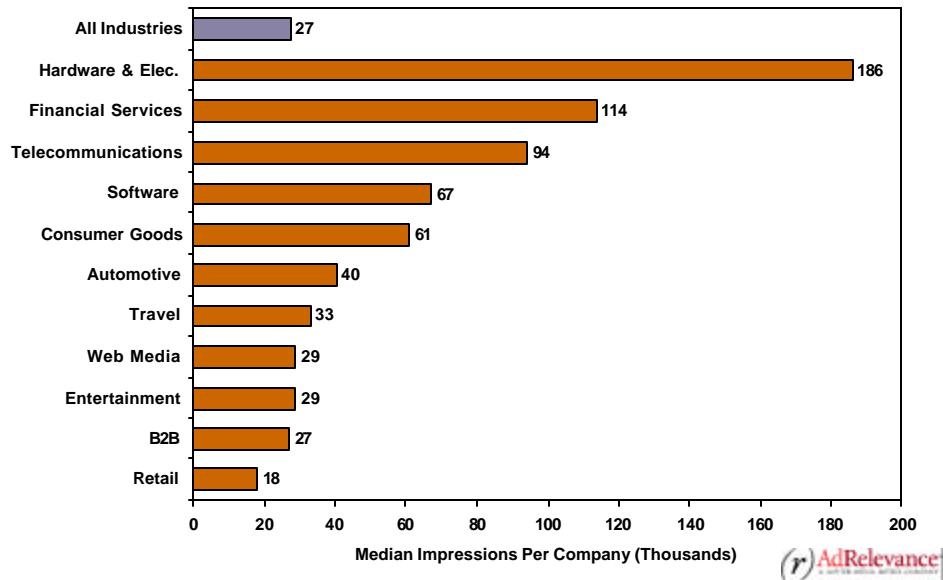
**Fig. 16: Share of Market Distribution
Fourth Quarter 2000**



While the average media buy may be small, the size of the buy differs between industries. The Hardware & Electronics and Financial Services industries register average campaign sizes with more than three times as many impressions as the

overall industry average. On the other hand online retailers are much less likely to schedule larger campaigns.

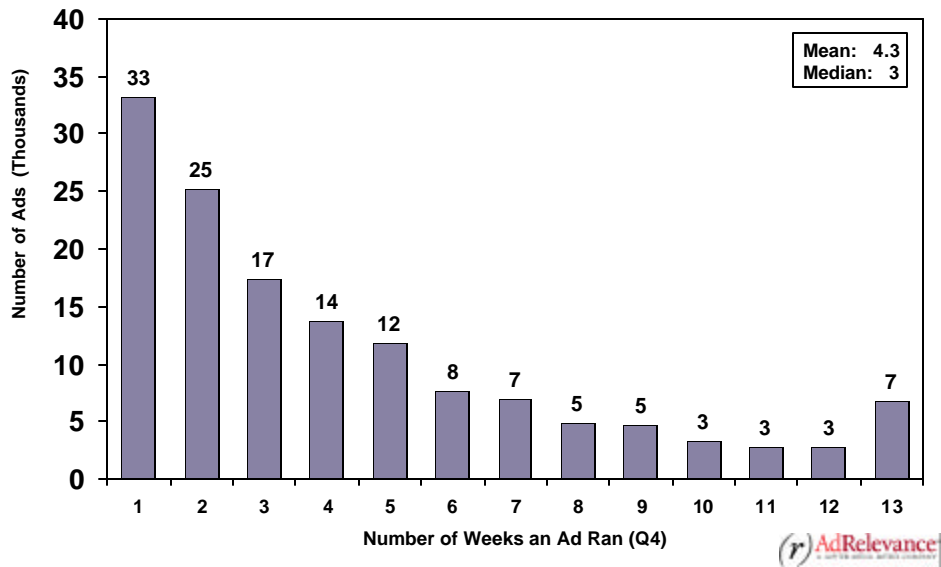
**Fig. 17: Median Campaign Size by Industry
Fourth Quarter 2000**



While the number of impressions an advertiser schedules is important, timing the impressions is just as important. Scheduling all of the impressions to run at once may not provide optimal value to the advertiser, especially when trying to build a brand through advertising. Indeed, one quarter of ads ran six weeks or more.

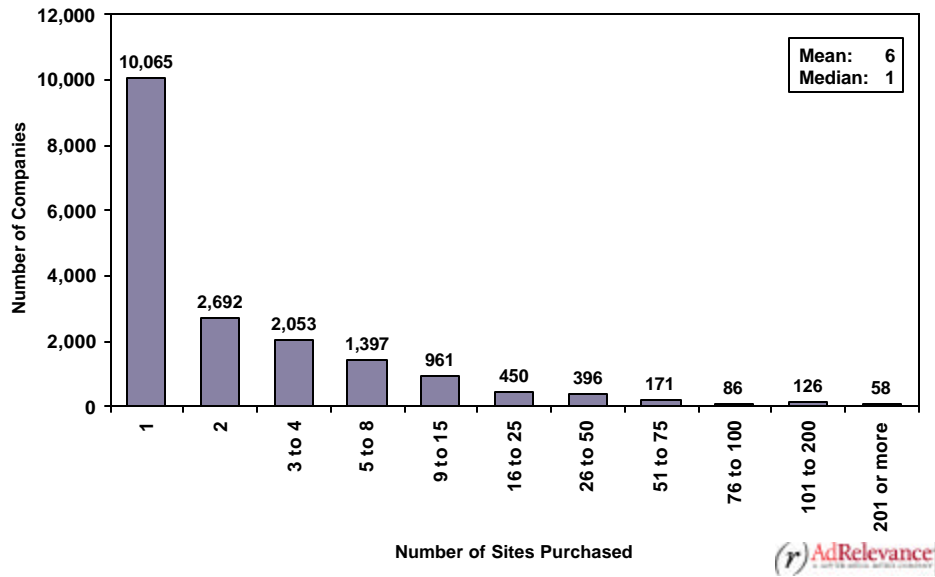
Despite some companies' efforts to schedule advertising over several weeks, the majority of ads observed in the fourth quarter ran for less than three weeks. This may be the natural result of ads achieving their impression counts in a short period of time or it may also be a side result of banner optimization systems which automatically remove ads that are performing poorly.

**Fig. 18: Banner Run Length Distribution
Fourth Quarter 2000**



Optimization of banner campaigns is one of the benefits that online advertising offers. The relative ease of scheduling and reallocating impressions allows advertisers to closely monitor campaign success and, based on that information adjust which banners receive the majority of impressions. However, to effectively optimize, an advertiser needs to advertise on more than one site. Unfortunately optimization is not an option for many advertisers; over half of all fourth quarter online advertisers purchased only one site.

**Fig. 19: Number of Sites Purchased Distribution
Fourth Quarter 2000**



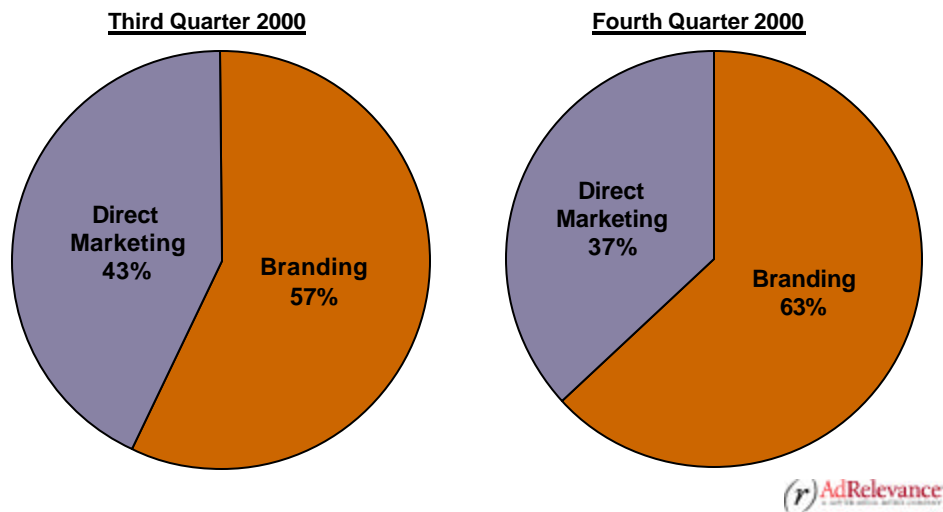
These statistics may make one wonder at the effectiveness of the majority of online ads. With offline media advertisers, holding very small media buys in one media outlet may be considered to be throwing money away. This thought may hold true for online advertising, or on the other hand the same campaign online may be generating leads for sales, or traffic to serve ads to. One thing is certain; the Internet is a medium that has brought advertising to companies of all shapes and sizes each with a different strategy in mind.

Chapter 4 – The State of Advertising Strategies

Online ads can typically be classified into two strategy types: direct marketing and branding. Direct marketing ads encourage web surfers to take immediate action, usually based on an incentive offered in the ad. An example of direct action would be a ‘click-through’ visit to a site or a purchase based on that incentive. Branding ads encourage consumers to remember brand names over the long term via repeated exposure. An example of a branding strategy would be ads that tout a retailer’s extensive selection of products or a business-to-business company’s notable client list.

Of ads that contained a distinct strategy during the fourth quarter, branding ads dominated the share of impressions. Sixty-three percent of all ad impressions viewed by web users contained a branding message, while the remaining 37 percent enticed users with incentives.

**Fig. 20 Advertising Strategy Breakdown
Third Quarter vs. Fourth Quarter 2000**

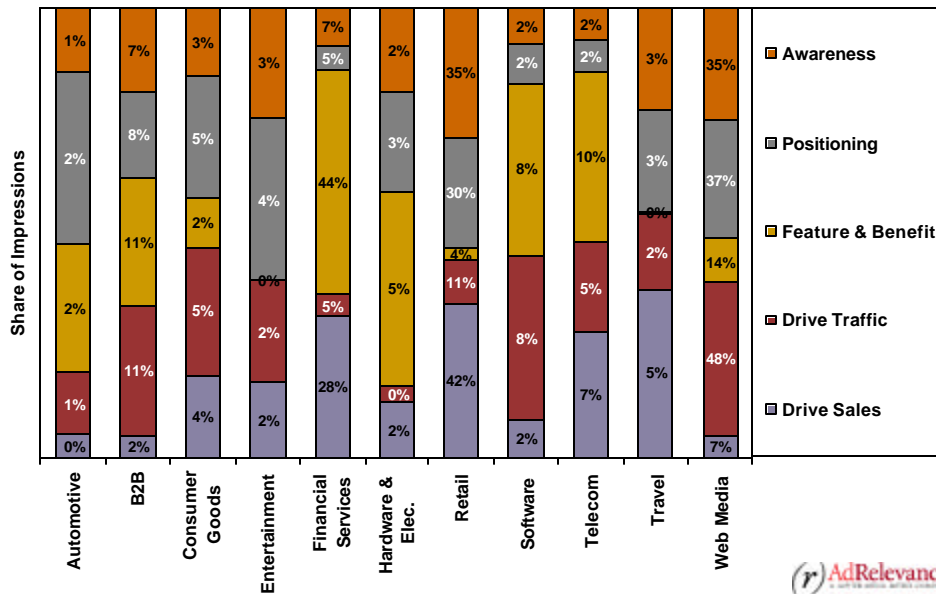


Continuing an ongoing trend toward the utilization of branding in the online market, those numbers inched upwards by six percent over the third quarter. Perhaps advertisers are realizing that although online ads afford one the opportunity for a direct response, that sort of solicitation is not always necessary to elicit an effective campaign.

AdRelevance breaks down branding strategies into three sub-types: awareness strategies, positioning strategies and feature/benefit strategies. Awareness ads are the simplest form of branding, relying on repeated exposure to establish consumer recognition. Positioning ads seek to establish a brand within a specific market

niche, and thus use references to specific consumer interests, yet without offering incentives. Finally feature/benefit ads seek to build associations between the product or service and its more tangible aspects. Direct marketing strategies can be broken down into tactics that drive sales, and ones that drive site traffic.

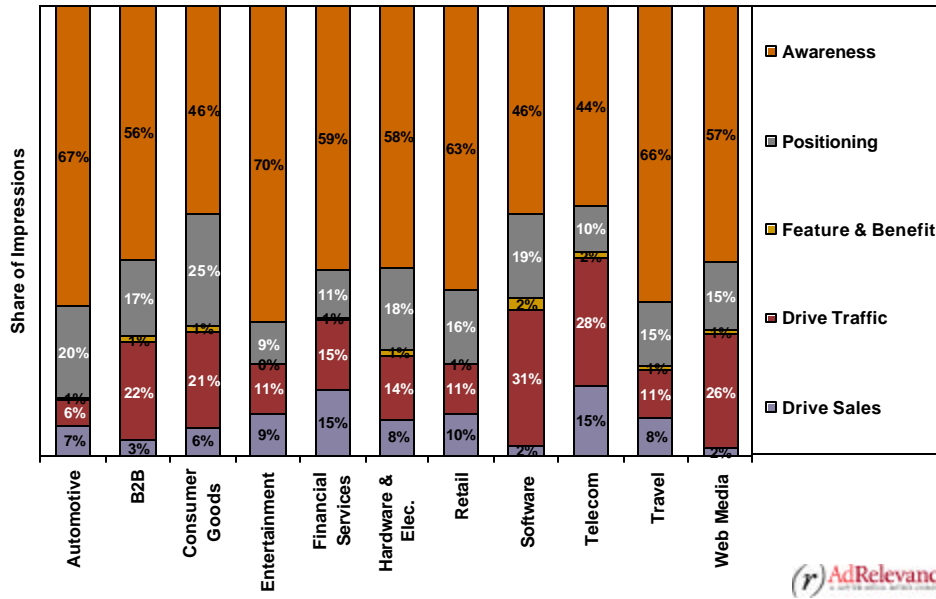
**Fig. 21 Ad Strategy Breakdown by Industry
Fourth Quarter 2000**



Across industries, strategy usage in terms of impressions is varied. Figure 21 is a map of what the Internet community saw in terms of strategies being served to individuals. Feature and benefit advertising is in heavy use in the financial sector with companies advertising low APRs to lure in customers. Retail advertisers barely registered a feature approach, but instead focused on awareness and positioning of their products.

Each sub-industry has a unique breakdown in terms of ad strategy, but one trait is common across all industries: the most popular strategy among advertisers is branding.

**Fig. 22 Ad Strategy Breakdown by Dominant Strategy
Fourth Quarter 2000**



Adding up the orange and gray bars in Figure 22 will show the extent to which companies favoring a branding ad strategy dominate all industries. In nearly all industries, companies who choose branding campaigns the most take up 50 percent of the whole segment. Even through the incentive-heavy holiday shopping season, most companies maintained a stock of awareness ads that worked to maintain base-level consumer awareness.

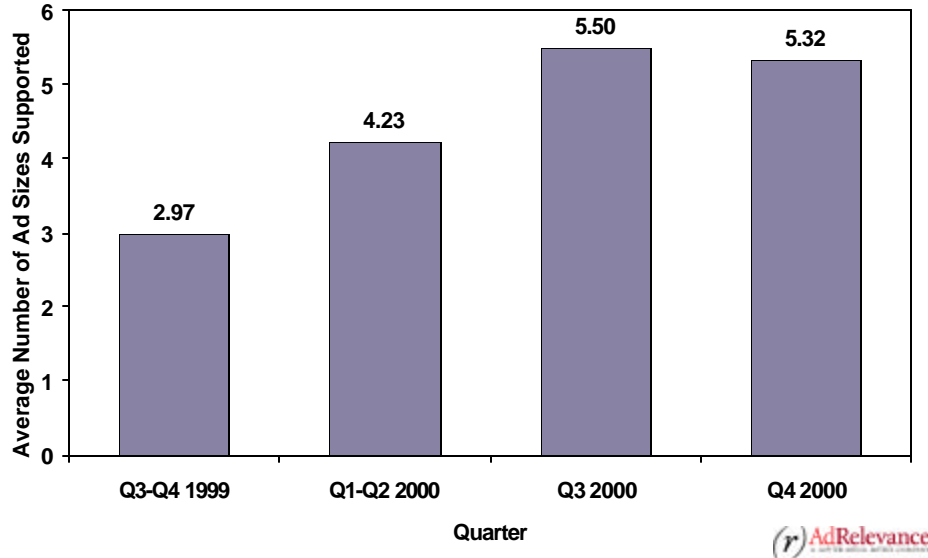
Market conditions have forced many advertisers to a strict budget, and perhaps some of the rampant incentives of Internet past are just that, history. An industry-wide focus on branding could have the two-tiered effect of cutting marketing costs and sliding the online market into a more traditional model of self-promotion. As advertisers seek better ways to market their products and services sites will need to step up with the solutions to deliver.

Chapter 5 – The State of Ad Sizes and Formats

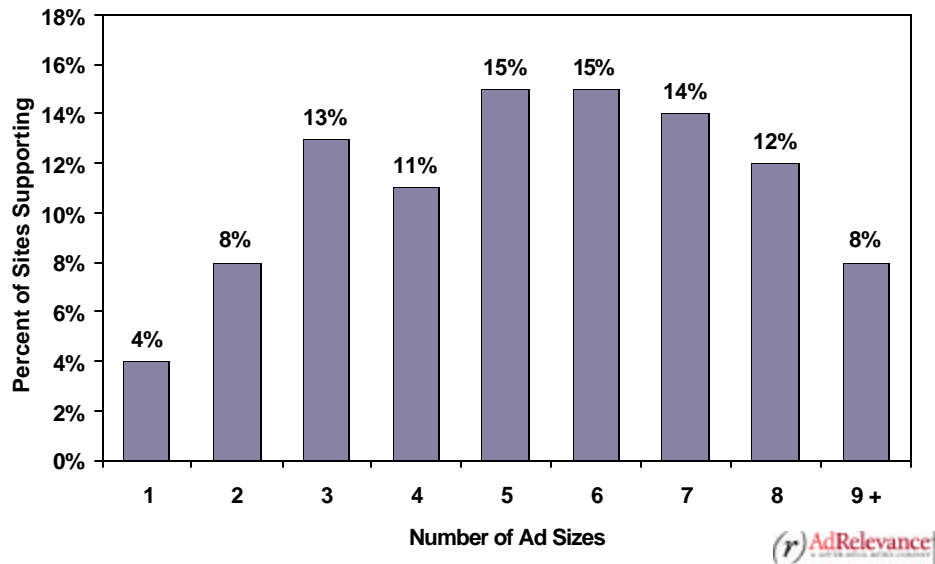
Advertisers heading into the fourth quarter of 2000 found themselves advertising in a market full of negativity. Click rates were at the lowest point ever and confusion over the effectiveness of online advertising sparked many press outlets to dub online advertising dead. Yet the reality of the situation described a market where online advertising continued to grow (see chapter 1) setting record highs for advertising expenditures. Despite the negativity in the press, web sites did fairly well during the fourth quarter.

Perhaps web sites expected the concern over ad effectiveness; after all it is not as if click rates disappeared over night, they've been trending downward since the introduction of the metric. As click rates declined web sites looked for new and better options for their advertisers. Over the past year sites have been increasing the number of banner shapes and sizes they offer to their customer base. While in the later portion of 1999 the average site supported 2.97 banner sizes, things change and as recently as the fourth quarter of 2000 the average site supported 5.32 banner sizes, almost twice as many.

**Fig. 23: Change in Number of Ad Sizes Supported
Q3 1999 through Q4 2000**



**Fig. 24: Number of Ad Sizes Supported
Fourth Quarter 2000**



Realizing that their early standardization efforts may in fact hinder more than help the industry, the Internet Advertising Bureau (IAB) has begun an effort to re-evaluate and approve new standards. Across the board, web sites are breaking the current standards to try and find the silver bullet that advertisers want. From CNET's recent introduction of their new 3 1/2 inch square Flash™ based ad format to ESPN.com's fixed placement sponsorships, web sites are breaking the rules and looking for new opportunities.

Yet each of these new opportunities represents a double-edged sword for the online ad industry. New formats often provide more effective means to reach the customer and increase return on investment, however the lack of standardization makes planning a multi-site campaign a logistical nightmare for ad agencies and media buying companies. This often results in a higher investment up front. Which is especially true for new ad formats that take advantage of cutting edge technologies such as Java and Flash, which require more technical resources than is often available in a typical agency.

ESPN/Go's Ad Format:



CNET's New Ad Format:



Notwithstanding the technical issues of creating a campaign with non-standard creatives, larger banners seem to be gaining in popularity, particularly because of their ability to help promote the brand. Larger banners are more likely to increase the clarity of the message in an ad as well as improve its ability to generate consumer interest in the sponsor.¹

While size options may change, AdRelevance categorizes all available options into one of the standardized size categories defined by the IAB and CASIE. While the standardized categories encompass the majority of banner sizes available on the Internet today, the definition of banner sizes by the AdRelevance system includes a margin of error to accommodate odd sized banners. For example the new Forbes.com column banner, which measures 150 pixels wide by 800 pixels high, is

¹ "The Five Golden Rules of Online Branding", Dynamic Logic, AdRelevance, 24/7 Media

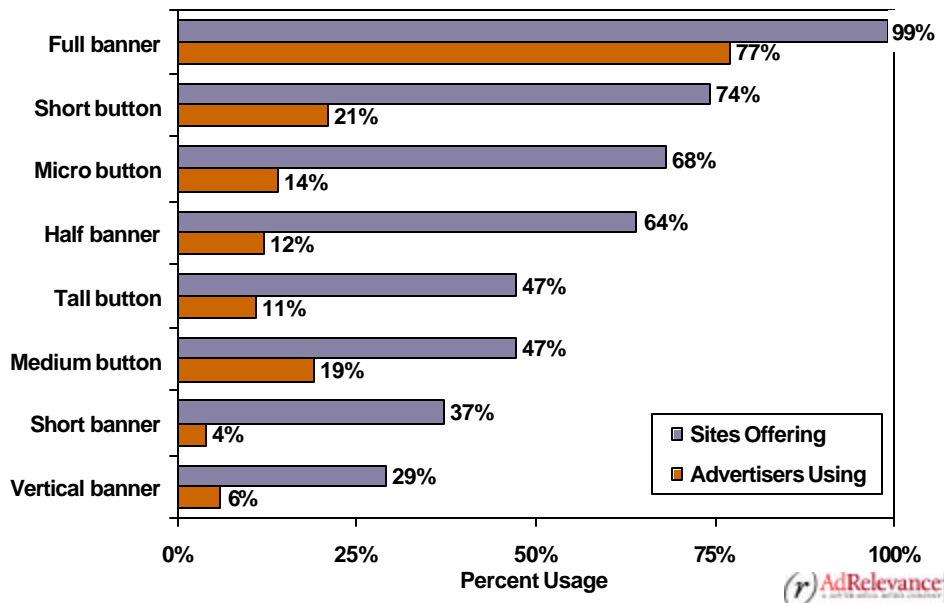
categorized in the AdRelevance system as a vertical banner. The following table describes how the margin is applied:

AdRelevance Banner Size Classification

Ad Dimension Type	IAB/CASSIE Size	Minimum Allowable Height	Maximum Allowable Height	Minimum Allowable Width	Maximum Allowable Width
Full banner	468 x 60	0	90	431	-
Short banner	392 x 72	0	90	314	430
Half banner	234 x 60	0	90	178	313
Vertical banner	120 x 240	183	-	0	177
Tall button	125 x 125	108	182	0	177
Medium button	120 x 90	76	107	0	177
Short button	120 x 60	46	75	0	177
Micro button	88 x 31	0	45	0	177

While sites may be increasing the offerings to their clientele, advertisers have yet to fully take advantage of the options. Among the online advertising community the majority of companies still rely on the full banner ad as the standard ad size in their campaign.

**Fig. 25: Sites Offering Sizes vs. Advertisers Using Sizes
Fourth Quarter 2000**

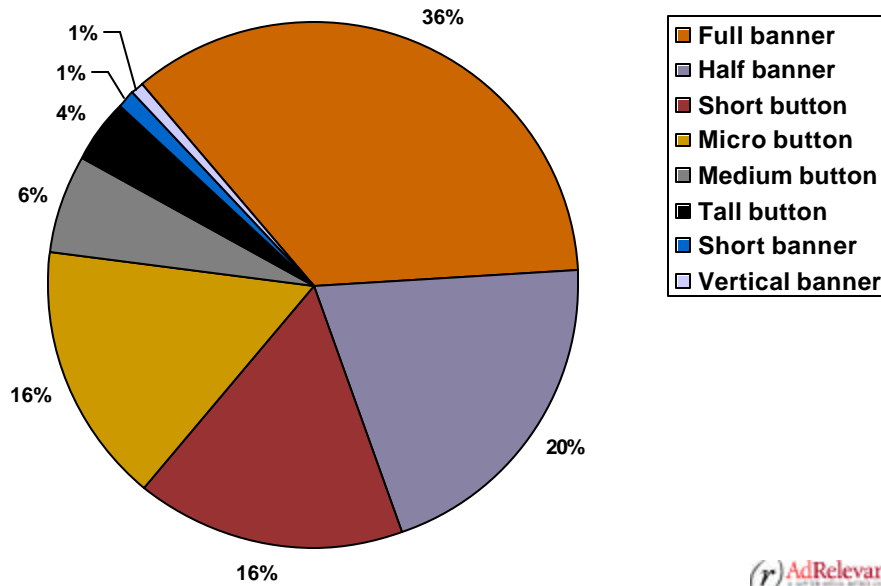


To some degree this trend makes sense. Sites that offer multiple ad sizes generally tend to offer those sizes only on highly trafficked pages within their site. As a result the full banner often is the only available option on pages that run deeper than the home page, hence its popularity among advertisers – it is a standard. Looking

further into the data suggests that while the full banner is often among the ads in an advertisers arsenal they don't garner the same proportion of viewers as other sizes do.

Because odd size banners have a tendency to show up on the more highly trafficked pages of a site they typically achieve high impression levels and are able to cut into the dominance of the full banner.

**Fig. 26: Share of Total Ad Impressions by Ad Size
Fourth Quarter 2000**

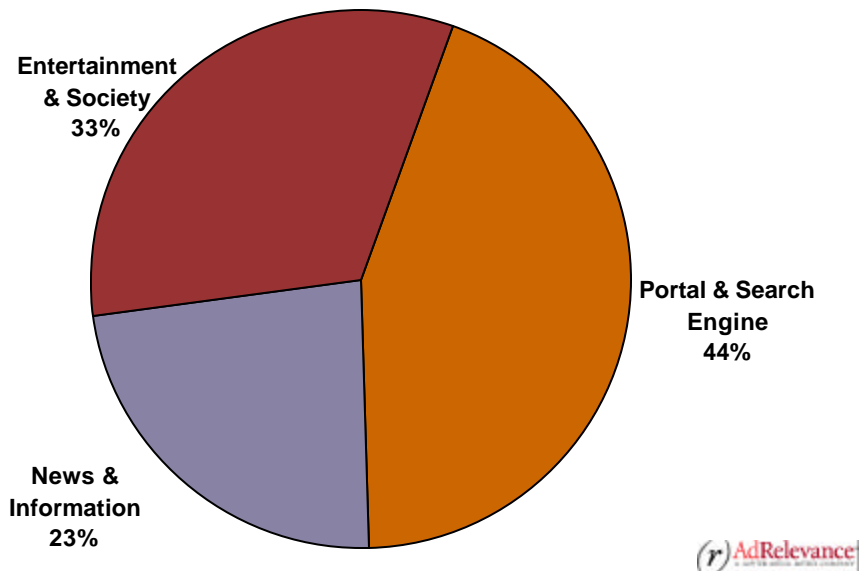


No doubt websites will continue to explore new promotional options for advertisers. While sites may have prospered from the holiday rush there is no telling what the New Year will bring. Having a multitude of advertising solutions will go a long way to making sites more attractive to the online advertising community.

Chapter 6 – The State of Web Sites

Categorizing websites into three distinct genres produces a familiar map of the online advertising industry in the fourth quarter. Still hosting the largest share of advertising are portal and search engine sites such as MSN, Yahoo! and AltaVista with 44 percent of the market under their domains. Entertainment and society sites such as iWon, ESPN.com, and MapQuest host 33 percent of all advertising. The smallest share belongs to news and information sites such as The New York Times and CNET, with 23 percent.

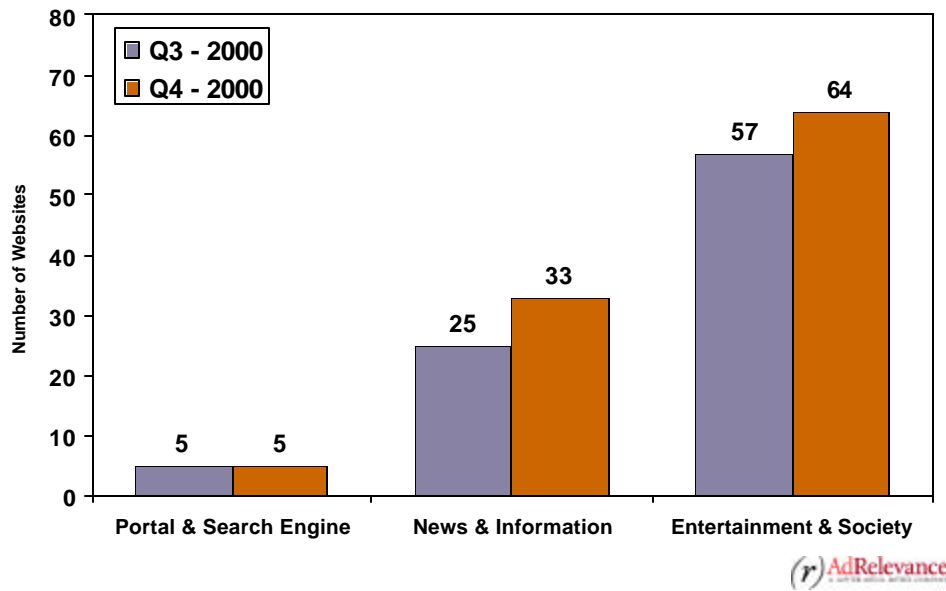
**Fig. 27 Share of Impressions by Site Genre
Fourth Quarter 2000**



As a result of the holiday spending push, portal and search engine sites as an aggregate gained 14 percent in advertising revenue over the course of the quarter, with news and information sites gaining 36 percent. Eclipsing those substantial gains, entertainment and society sites as a whole gained nearly 46 percent in ad revenues through the holidays.

The big picture—grouping sites into three large genres—does not yield a great disparity between sites, but within these categories lie big differences in the concentration of ad hosts. A good measure of the power of an individual site is what percentage share of all advertising it hosts. In the same way, a great measure of website genre makeup is how many sites host the majority of all ads.

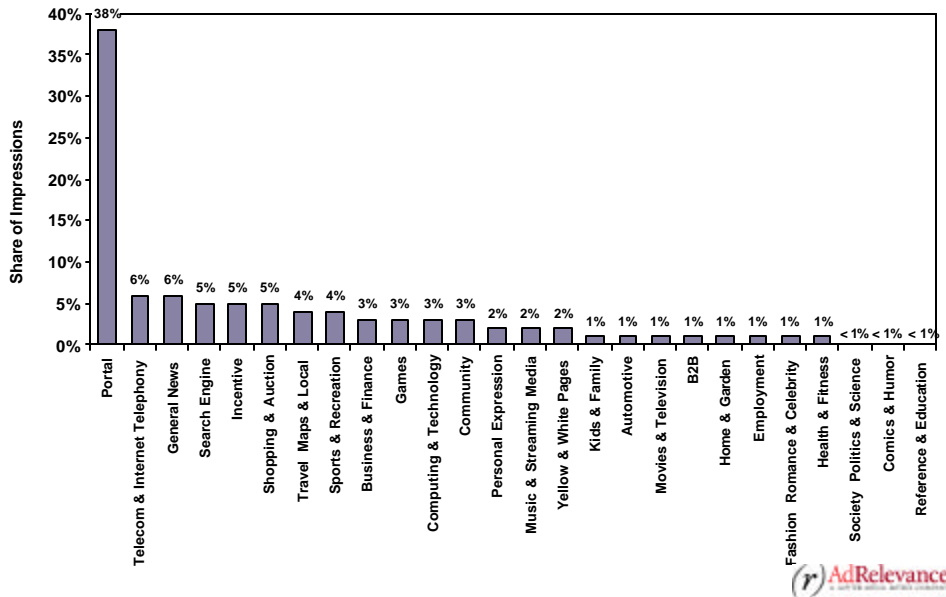
Fig. 28 Number of Sites Hosting 80 Percent of Impressions – Fourth Quarter 2000



Portal and search engine sites were dominated by a few entities over the course of the fourth quarter, with only five sites hosting 80 percent of all ads within that genre. The concentration of companies picks up with news and information sites, with 33 companies hosting the majority of ads. Entertainment and society sites proved to be the most competitive genre in terms of selling ad space, requiring 64 sites to reach a percentile of 80 percent of all ads.

The large share of ads on sites like Yahoo! and MSN within the portal and search engine genre is a prime example of those site's continued domination of the online content industry. The high number of competitors in the other genres suggests a degree of specificity in content that prevents advertisers from placing all their eggs in one site-basket. For example, an advertiser can place all their ads on Yahoo! and still target users going to the finance, sports, and shopping sections separately. However, on a site such as ESPN.com, advertisers must settle for a strictly sports audience.

**Fig. 29 Share of Impressions by Subgenre
Fourth Quarter 2000**



Breaking these genres down into smaller groups yields a much more precise picture when it comes to share of ad hosting. Pure portal sites host nearly 40 percent of all online ads, beating out the nearest competing genre by over 30 percent. The remaining 60 percent is divided up amongst the smaller genres more evenly, with news, search engine, incentive, and shopping sites among the also-rans.

The heavy skew towards portal sites is further evidence that most advertisers shy away from explicit targeting in their online campaigns. Movies and television sites, comics and humor sites, as well as political sites hold only miniscule shares of the overall picture, while portal sites that include many if not all of those specialties get the nod.

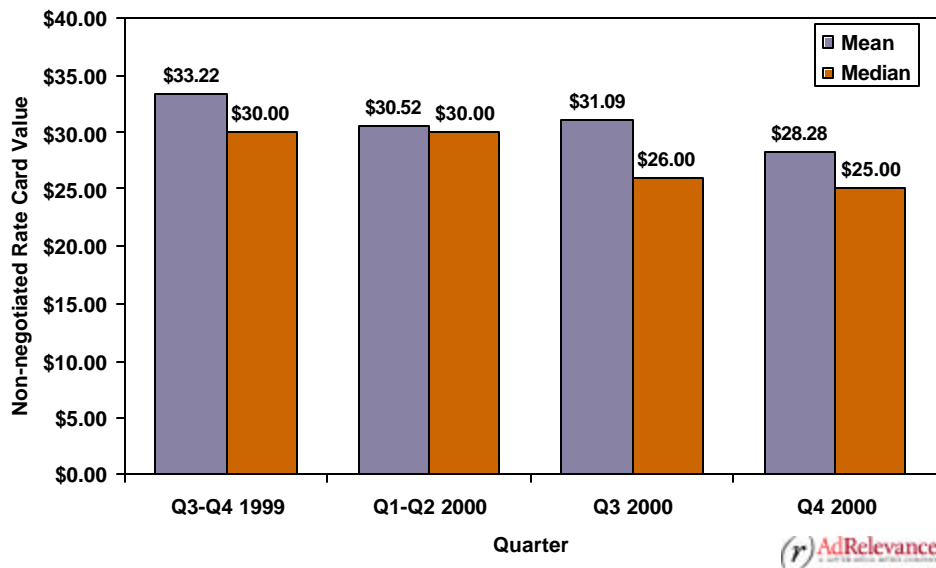
Site revenues are growing which may seem to be a natural effect running in parallel with the growth in traffic, but there are other factors that can significantly impact revenues. Specifically, sites can show increasing traffic but a shrinking cost per thousand impressions could spell shrinking revenues. Growth in share and impressions does not necessarily equate to growth in revenue.

Chapter 7 – The State of Rate Cards

Ever the optimists, used car salesmen almost always start the negotiation process at what they believe to be the most their client will pay. The same holds true in advertising where web sites publish rate card values as a starting point to the negotiation. Rates are typically represented as cost per thousand impressions or CPMs. It is from these CPM rate cards that the ad sales world begins their process of earning revenue for many of the web sites on the Internet. While it is true that many sites offer deep discounts, analyzing the trends in rate card pricing provides a means to better understand how pricing strategies are changing across the web.

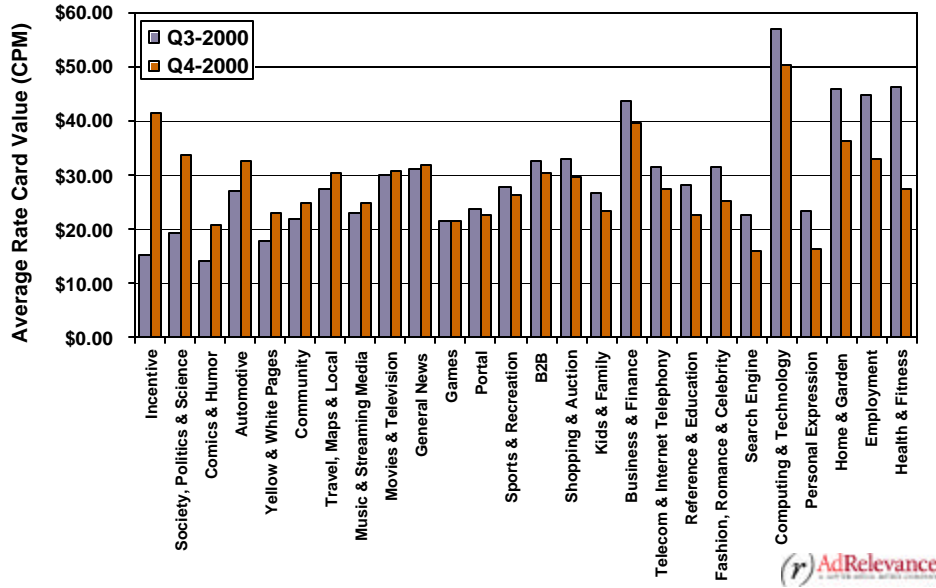
Current data reveals that rate card prices are on the decline. The average website has a rate card of \$28.28 down almost five dollars from a year ago. Half of all websites measured for this report charge less than \$25.00 per thousand impressions.

**Fig. 30: Change in Average Full Banner Rate Card Value
Q3 1999 through Q4 2000**



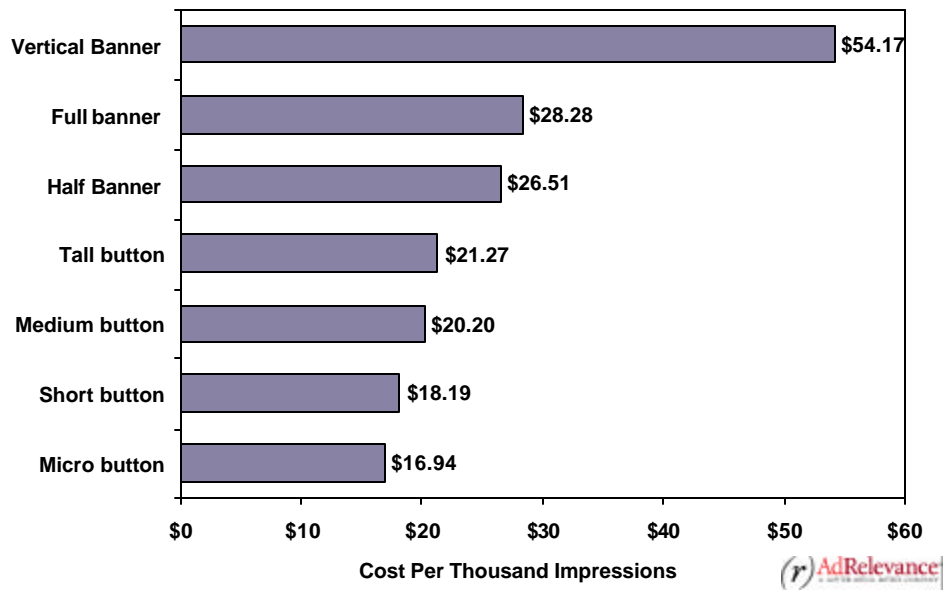
While not all web sites are showing declines in rate card values, 15 of AdRelevance's 26 website categories showed declines between the third and fourth quarters. Those 15 categories showed an average decline of \$6.10.

**Fig. 31: Average Full Banner Rate Card Value by Genre
Third Quarter vs. Fourth Quarter 2000**



With the number of dimensions supported by websites increasing and the concern over effectiveness, advertisers are beginning to explore new options. Seizing the opportunity to price strategically, web sites price their non-standard ad elements to maximize return. Specifically, the newly popularized vertical banner found on more than 200 sites, has been priced at a level designed to deliver higher revenues to the website. The average CPM rate card cost of a vertical banner is \$54.17, making it the only banner element to garner a higher CPM rate than the full banner.

**Fig. 32 Average Banner Rates by Dimension
Fourth Quarter 2000**



Appendix A: Methodology

The analysis in this report utilizes data gathered by the AdRelevance intelligent agent technology. AdRelevance intelligent agent technology diligently scours the commercial universe of the web and monitors advertising activity 24 hours a day. As each page is fetched from the web, the agent recognizes and extracts all advertising activity and stores it in a database. The agent then captures pertinent information associated with the ads, such as the URL on which the ad resided, the URL reached upon click-through, the technology employed and the name of the advertiser and the promoted brand. When combined with traffic information advertising data can be used to determine advertising impressions for an ad, company, site, and timeframe.

Appendix B: Limitations

This report is also limited to the advertising technologies and web sites that AdRelevance tracks. While the system currently monitors over half a million URLs advertising served to URLs outside of those measures will not be reflected in the findings of this report. In addition, while AdRelevance currently tracks all GIF, HTML, JPEG, and Flash™ advertising that is served to a web page, other technologies or ad formats may not be reflected in the findings of this report.

Appendix C: Figures Described

- Fig. 1 Top 15 Advertisers by Impressions – January 2001
– House advertising is removed to discount any non-paid impressions.
- Fig. 2 Top 15 New Advertisers by Impressions – January 2001
– A new advertiser is one that didn't advertise in the six months previous.
- Fig. 3 Number of Companies that Account for 50% of Ad Spending – January 2001
– To calculate this, we move down the list of top advertisers until we total exactly 50 percent of the entire market. The number of companies that make up this total are the number of companies that make up 50 percent of ad spending.
- Fig. 4 Top 15 Web Sites by Ad Revenue – January 2001
– House advertising is removed to discount any non-paid impressions.
- Fig. 5 Top 15 Web Sites Ranked by Number of Advertisers – January 2001
– A simple count of the number of advertisers on given websites during the month of January.
- Fig. 6 Number of Web Sites that Account for 80% of Ad Revenue – January 2001

- Similar to figure 3, this metric totals the impressions levels of websites until an 80 share of market is reached. The number of companies comprising this total gives us an idea of market concentration.

Fig. 7 Percentage of Advertisers that are Dot Com vs. Traditional – January 2001

- This monthly metric is determined by classifying the top 200 advertisers of the month as having one of two business models. “Dot coms” are defined as any advertiser that does business purely online, and was started with that express intent. A traditional advertiser is an advertiser that has substantial offline interests, and that could conduct its business without the existence of the Internet.

Fig. 8 Advertising Strategy Breakdown – January 2001

- The AdRelevance system assigns strategies to ads as they are detected. This chart breaks down those strategies by the number of impressions placed within each strategy type, including impressions for ads with no identifiable strategy.

Fig. 9 Share of Advertising Impressions by Industry – Fourth Quarter 2000

- This broad metric cuts the online advertising market into four pieces, breaking down impressions attributable to the four resulting industries.

Fig. 10 Dot Com vs. Traditional by Industry – Fourth Quarter 2000

- This breakdown classifies advertisers in the same way as in Figure 7, however the classification was applied to those companies making up 50 percent of advertising within that industry.

Fig. 11 Number of Advertisers Making Up 50 Percent of All Advertising – Fourth Quarter 2000

- Calculated the same way as in Figure 3, covering the entire fourth quarter.

Fig. 12 Growth in Ad Impressions by Industry – Fourth Quarter 2000

- Weekly ad impressions levels broken down by industry.

Fig. 13 Paid vs. House Ads – Fourth Quarter 2000

- This chart shows the percentage of ads that are non-paid house ads, out of the 11 web sites that host 50 percent of all online ad impressions.

Fig. 14 Percent House Ads by Genre – Fourth Quarter 2000

- This percentage is calculated by removing any ads by advertisers affiliated with site ownership in a particular genre. The top 10 sites in each genre were analyzed.

- Fig. 15 Percent House Ads by Genre – First through Fourth Quarter 2000
- The same top ten sites per genre were analyzed in the same manner as above, but were extended back to the beginning of the year.
- Fig. 16: Share of Market Distribution – Fourth Quarter 2000
- Market share is a measure of campaign size divided by market size. A histogram was made for all companies and their share of market, yielding a plot of the frequency of market share levels.
- Fig. 17: Median Campaign Size by Industry – Fourth Quarter 2000
- The median campaign size is the advertiser in the exact middle of an industry, in terms of impressions.
- Fig. 18: Banner Run Length Distribution – Fourth Quarter 2000
- This metric looks at all unique online ads in the fourth quarter by the number of weeks they appeared online. Those numbers were formed into a histogram to determine the frequency of specific run lengths.
- Fig. 19: Number of Sites Purchased Distribution – Fourth Quarter 2000
- All advertisers were analyzed over the quarter by the number of websites each advertiser purchased. Those numbers were formed into a histogram to get the distribution.
- Fig. 20 Advertising Strategy Breakdown – Third Quarter vs. Fourth Quarter 2000
- Using the same methods as in Figure 8, these graphs compare ad strategy by impressions for consecutive quarters.
- Fig. 21 Ad Strategy Breakdown by Industry – Fourth Quarter 2000
- Again, the same ad strategy applied to industries.
- Fig. 22 Ad Strategy Breakdown by Dominant Strategy – Fourth Quarter 2000
- This chart utilized a query that determined the dominant ad strategy for a company by returning the strategy that received the most impressions for a given company. Companies were thus assigned a dominant strategy, and those strategies compose the breakdown in the chart.
- Fig. 23: Change in Number of Ad Sizes Supported – First through Fourth Quarter 2000
- This metric is a cross-industry average of the number of ad types supported by websites.
- Fig. 24: Number of Ad Sizes Supported – Fourth Quarter 2000
- A breakdown of what percentage of all sites support specific numbers of ad sizes. Calculated by gathering data on all sites and how many ad

sizes those sites support, then turning that data into a frequency histogram.

- Fig. 25: Sites Offering Sizes v. Advertisers Using Sizes – Fourth Quarter 2000
- Broken down by ad type, this graph used a data query to determine how many sites supported particular ad sizes as well as how many organizations purchased those ad sizes. The numbers of sites and advertisers were then converted to percentages of the total market.
- Fig. 26: Share of Total Ad Impressions by Ad Size – Fourth Quarter 2000
- Impressions attributable to different banner sizes as a percentage of all impressions in the industry.
- Fig. 27: Share of Impressions by Site Genre – Fourth Quarter 2000
- Impressions per genre divided by the industry total.
- Fig. 28: Number of Sites Hosting 80 Percent of Impressions – Fourth Quarter 2000
- The number of websites whose share of market adds up to equal 80 percent of the entire market, in descending order from the number one website down.
- Fig. 29: Share of Impressions by Subgenre – Fourth Quarter 2000
- Same as Figure 28, divided up into smaller genres.
- Fig. 30: Change in Average Full Banner Rate Card Value – First through Fourth Quarter 2000
- Every quarter, rate card values are collected from website ownership by AdRelevance analysts and entered into an extensive database. This data set covers non-negotiated values for standard 468 x 60 pixel banners on hundreds of sites that AdRelevance covers.
- Fig. 31: Average Full Banner Rate Card Value by Genre – Third Quarter vs. Fourth Quarter 2000
- The same analysis as above, broken down by genre instead of by time.
- Fig. 32: Average Banner Rates by Dimension – Fourth Quarter 2000
- Using the same rate card data, this metric shows the variance in rate prices by ad size.

Appendix D: Glossary

<u>Term</u>	<u>Definition</u>
Creative	A generic term for Internet advertisements such as buttons and banner ads. This definition does not include text ads.
Dot com	Any company that originated on the Internet or whose existence is dependent on the existence of the Internet.
Genre	Exclusive groups of sites that are similar in content and function. Sites are considered as a whole; individual subsites are not assigned to genres.
Impressions	The number of times an ad is rendered for viewing. A calculation of traffic x rotation.
Industry	A sector of commerce to which an advertised product belongs.
Industry Segment	A grouping of Companies according to their interest or main focus of business. For example, Autoweb.com is grouped into the Industry Segment Automotive and Marriott is grouped into Hotel/Accommodation. Each company can belong to only one Segment.
Median	A number in a series of numbers below and above which there is an equal count of numbers or which is the arithmetic mean of the two middle values if there is no one middle number.
Product/Service	An object being promoted or advertised. A specific branded item, service or cause.
Product/Service Segment	A grouping of Creatives according to their topic or focus. A single company may have several Creatives each individually grouped into different product/service segments such that AT&T has Creatives in Local/Long Distance, Cellular/Digital, and the ISP/Data communications
Rotation	The comparison of a particular set of ads to all other ads that appear on a given Web location during the same time period. This value is generally expressed as a percentage. For example, Company A had five percent of the rotation on www.website.com
Site	The officially registered domain name that immediately precedes .com or .net and refers to a set of pages with a common identity. This definition includes IP addresses that are part of the common identity. Criteria for a common identity (or Site) include: <ul style="list-style-type: none">– same preceding name– shared logo, ad slot and navigation bar– home page link, address redirect or identical page renditions.– unified media kit, advertising info and contact info– availability of Run of Site (ROS) standard ad package
Spending	A calculation of the estimated cost of placing ads (impressions standard rate card CPM).

About AdRelevance

The AdRelevance Service provides advertisers, agencies and publishers with marketing intelligence that tells them when, where and how competitors and potential clients are communicating on the web. If you're looking for a service to generate advertising sales leads or help you develop and execute more effective online communication programs, call AdRelevance toll free at 1.877.884.5083 for a free demo.

AdRelevance Intelligence Reports are released monthly and provide customers, news media and industry watchers with a timely perspective on the rapidly changing landscape of online advertising. The company's Media Research Group brings industry-specific expertise to their analyses in addition to a thorough understanding of marketing strategies and Internet technologies.



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