The Domain Secondary Market

Opportunity or Threat?

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Agenda

- What is the Secondary Market?
- Is the Secondary Market a threat or an opportunity for registries?
- Some comments on the development of the Secondary Market in the Asia Pacific region (Ching Chiao, .Asia)
- Discussions
Key Facts and Figures

- The Secondary Market is composed of 3 Channels:
  - $70M: Domains sold via Marketplaces (eg, Sedo)
  - $130M: Expiring Name Auctions (eg, Snapnames)
  - $500M?: Private Sales (eg, Microsoft buys from Joe Smith)

- Around half of all domains are unused (60M): How many of these are for sale?

- An “Average” domain is worth about $1,500 on the Secondary Market (best names sell for millions)

- “Domainers” or Domain Investors, are people who make their money from the resale and monetization of domain names.
  - Enough to sustain 3 print magazines, 5 major industry trade shows, dozens of blogs and forums, 20+ domain parking companies, etc...
Domain Secondary Market Composition 2006

- Sedo: 39.9%
- SnapNames: 18.9%
- Afternic: 4.6%
- BuyDomains: 4.1%
- Enom’s Club Drop: 0.9%
- Pvt Sale: 14.3%
- Others: 2.7%
- Forums: 0.2%
- Moniker/DomainSystems: 5.4%
- T.R.A.F.F.I.C.: 7.9%
- Pool: 1.1%
What is Domain Parking?
Monetizing Users who “Search” via Domain Names

Keyword search = Keyword Domain + TLD
Replaces old “Under Construction” Page
Do people really search via domain names?

- WebSideStory Research:
  “Over 64% of users arrived at sites by direct navigation, compared to 35% via search engines and links.”

- Some users don’t distinguish between search bar and browser navigation bar:

  Ex: Top Searches on Yahoo.co.uk:

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<tbody>
<tr>
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<td>google.co.uk map</td>
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<td>107</td>
<td>google.co.uk search</td>
</tr>
</tbody>
</table>

- Some browsers auto-complete (add “www” and “.com”)
Domain Parking is Big Business

“Approximately 10% of all PPC traffic* derives from Direct Navigation portals”

-Susquehanna Financial Group

*That works out to about $1 billion in 2007...
The Secondary Market Ecosystem:
Who’s feeding who?
Domain Investing: How much money can be made?

THE ANATOMY OF AN “AVERAGE” 500 DOMAIN PORTFOLIO:

ANNUAL INCOME:
- PARKING
  $4/ domain = $2,000 from parking
- SELLING
  $1,800 avg. selling price * 2% turnover = $18,000 in sales

TOTAL INCOME
$20,000

ANNUAL COSTS:
- REGISTRATION COSTS
  $8/ domain = $4,000 reg fees
- INVENTORY RENEWAL
  2% turnover * $200 cost of acquisition = $2,000 in sales

TOTAL COSTS
$6,000

ANNUAL PROFIT = $14,000

ROI CALC: $140,000/ $100,000 = 140%
(Assuming 10% discount rate, perpetuity)
2006 Top 10 TLDs: Reported Domain Sales

- com: 77%
- net: 3%
- org: 5%
- de: 3%
- co.uk: 5%
- info: 7%
- mobi: 2%
- .biz: 1%
- .eu: 1%
- .at: 0%
Secondary Market Prices by TLD

Change in Sales Volume by TLD (Logarithmic Scale)
Factors Affecting the Strength of a TLD on the Secondary Market

- **Geopolitical:**
  - Number of Internet Users
  - Economic Strength
  - Etc.

- **TLD Policies:**
  - Registration requirements
  - Ease of transfer

- **TLD History**
  - Saturation
  - Marketing
Strong Secondary Market = Strong Primary Market

- News of big secondary market sales encourages primary market registrations
- Domain investors are responsible for a good portion of new registrations
- Regardless of policies, there will always be a secondary market one way or another (since domains are a unique asset)
- TLDs with secondary market-friendly policies (eg, .de, .info, .mobi, .tv, etc.) over-perform relative to market size
- TLDs with secondary market-unfriendly policies (eg, .biz, .co.uk, .fr) under-perform relative to market size
What is Domain Tasting?

- Take advantage of 5-day Refund Period to test whether or not a domain receives traffic. If not, refund it!
- Goal is to build a portfolio which earns well via domain parking
- Auto-registration of domains can lead to legal problems (typosquatting)
- Practiced by a very small number of domainers and registrars
- Opportunity is now largely closed
- “Tasting” is also possible in other TLDs
- Could be stopped with a non-refundable per-domain fee (eg, .org model), but some registries earning too much off of it to want to stop it
What is Domain Kiting?

- Repetitive registration-refund cycle of a domain every 5 days, to “register” the domain without actually paying
- Doubtful whether or not this actually exists: more likely part of a slander campaign against Domainers
- The economics don’t work out: registrars have to put up the cash at the registry before registering, so in effect you are paying by having your funds at the registry
- Could be that back-to-back sessions of testing are confused for “kiting”
لا يمكنني قراءة النص العربي.
Conclusion and Recommendations

- Embrace the positive aspects of the Secondary Market:
  - Market-based distribution of domain names
  - Bolsters awareness and acceptance of your TLD
  - Increases primary market registrations

- Enact good policies to control the potential risks:
  - ADR processes and anti-cybersquatting legislation
  - Measures to control domain tasting or domain kiting
  - Fair distribution of new TLD releases, eg via open auction
  - Efficient ownership transfer and accurate whois data
How to Benefit from the Secondary Market

→ Consider engaging the secondary market community with your marketing (attend shows, forums, etc...)
→ Consider integration of secondary market names into your sales channel
→ Consider publishing relevant data

I am happy to discuss the best options with you!

Questions?
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The Old Expiry Process
The New Expiry Process

Auto-Renew grace period **45 days**

- **EXPIRED**
  - Registrar grace period **30 days**
  - Sale/auction period **5-10 days**
  - Did the domain sell at auction?
    - **NO**
      - Did the PPC bring in more than $6 annually?
        - **NO**
          - Registrar deletes domain and it enters the Redemption Grace Period (RGP)
        - **YES**
          - Registrar transfers the name permanently to its own holding account.
    - **YES**
      - Domain transferred to new owner
Some Quick Facts about Sedo

- World’s largest domain marketplace with over 7 Million domains listed for sale
- The average domain currently sells for around €1,500.
- Our highest value domain sale was Vodka.com for $3 million.
- Over 2 million direct navigation portals in thousands of verticals
- About 500,000 members from dozens of countries buy and sell through Sedo
- Nearly 20,000 domains were sold through Sedo in 2006, for a total volume of over € 40 million
- 100 Employees in Cologne, 30 in Boston (USA)
- Also offer assistance with domain valuation, consultation on selecting appropriate domain names, domain acquisition, domain brokerage, and domain escrow/transfer services