

ICA GROWTH & SUSTAINABILITY OF DIRECT SEARCH TRAFFIC

JANUARY 2007

*An Industry Survey Conducted by
the Internet Commerce Association
on Traffic Trends in the Direct
Search Industry*



INTERNET COMMERCE
ASSOCIATION

www.InternetCommerceAssociation.com

JANUARY 2007


EXECUTIVE SUMMARY

The Internet Commerce Association (ICA) completed an industry research study on the impacts of the Direct Search business and the consistency and sustainability of the traffic.

Study included an analysis on multiple domain portfolios that represent over 30 million unique visitors per month.

Findings included:

- » Average direct search traffic grew at a 35%+ compounded annual growth rate (CAGR) between 2002-2006.
- » Direct search is a long-term, sustainable source of quality traffic.
- » Two-thirds of the world's 1+ billion Internet users arrive at web sites via direct search.
- » At the time of publishing this report, Microsoft has announced that over 100 million copies of IE7 have been downloaded which represents approximately 20% browser market penetration. Changes to the browser (such as browser modifications released in IE7) do not appear to have an impact on direct search traffic: in fact, direct search traffic is still exhibiting substantial increases after IE7 was released.




**Direct search
industry comprises
6-9% of paid
search market**

BACKGROUND

What is Direct Search?

Direct search, often called direct navigation or “type-in traffic,” is the term used to describe the act of searching within the navigation bar instead of within a search tool. A consumer bypasses a search engine, types a search term as a URL into the browser address bar, and ends up at a site specifically designed for that topic. It is estimated that more than 67% of daily Internet users worldwide arrived at web sites via direct search in 2004 compared to about 53% in February 2002 (WebSide Story’s StatMarket division).

The reason two-thirds of Internet users opt for direct search is because it is effective. For example, if a consumer was looking for a personal loan, he might go to a search engine and type "personal loans" into the search box. He would then have to sort through a list of links – some relevant and some not – that contain that term. Direct search users would simply type "PersonalLoans.com" into their browser's address bar to get specialized information delivered instantly.



Business and consumers locate a site for the first time using direct search between 51-59% of the time.

- VeriSign, 2005

BACKGROUND

There are only three ways to get traffic to an Internet site:

- » Through search engine leads (Google, Yahoo, Ask.com, etc.)
- » Links from other web sites
- » Direct “type in” traffic (words or phrases typed directly into the navigation bar of the browser). Domain names are the source of this very high-quality traffic.



Search Engines
(Google, Yahoo)



Direct Search
(www.shows.com)



Link Traffic
(Shows.com ▶ Ticketmaster.com)



Online Traffic: Over 1 Billion Users Worldwide

BACKGROUND CONTINUED

Of these three navigation methods, direct search is one of the most pure and targeted form of traffic on the web, and considered by many to be one of the best performing search segments that drive the Internet.

Direct search is not about every person on the net beating a path to a single mega-site on the same day, but rather a broad audience of users with fragmented interests visiting thousands of small micro-portals each day that collectively reach millions of people.

“Think of Direct Search as a 'reverse search engine' where rather than one website with a search box reaching millions like Google, you have thousands of small, special interest websites each getting a handful of visits, but collectively bound together into a network and reaching millions of people,” says Frank Schilling, managing Director from Name Administration, Inc.

Direct Search for Advertisers

The popularity of individual search engines continues to change over the years, but generic and memorable domain names have been a constant since the earliest days of the commercial Internet. In fact, a growing number of Internet users use direct search as their preferred method of locating the information they need. For this reason, Web-based businesses often register or buy generic domain names related to their primary line of business to capture traffic from users who use their browser as a navigation tool. Generic domains that are closely related to significant commercial web activities can provide a stream of enduring free traffic to the holders of those domains. (Susquehanna Research 2005)

Domain names also have defensible ownership over this traffic. Any time an individual enters the domain name, that individual winds up on the site created under the domain name.

As Internet usage increases, and as advertising dollars continue to flow to the Internet, the value of this direct search traffic increases, as does the value of the underlying real estate. Domain name valuations are thus expected to grow with, if not in excess of, the overall increase in e-commerce revenues.



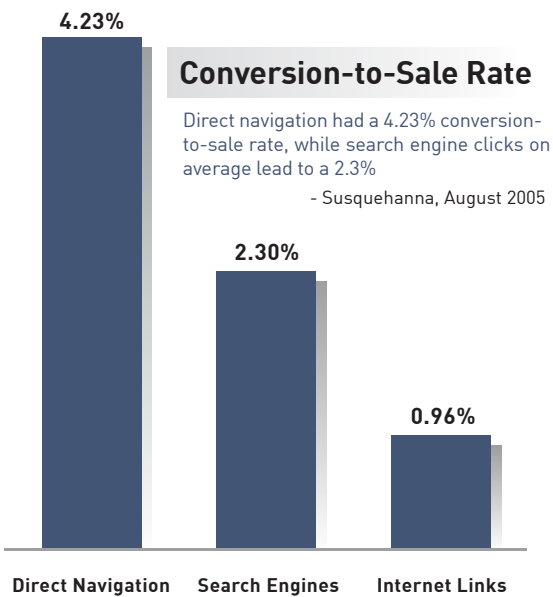
**More than 67% of
daily global Internet
users arrived at Web
sites by direct search
in September 2004,
compared to about
53% in February 2002**

- WebSide Story's StatMarket
division



Direct Search for Advertisers Continued

For advertisers looking to reach a high-quality, targeted audience, this direct search traffic is considered one of the best quality traffic, since the visitor directly typed in what they were looking for, did not arrive at the site while “surfing” or while exploring a link from another site, and did not arrive from a search engine where the user is typically comparing a variety of competitive sites.



Certainly, such a targeted audience is a boon for advertisers trying to reach specific segments. Advertisers are placing more and more ads on direct search sites in hopes of reaching millions of high-quality, largely untapped consumers. In 2006, RBC Capital estimated that direct search in the US would generate US\$650 million in advertising revenues, which is approximately 6-9% of paid search revenue.

Domain industry revenues are currently \$600 million and will reach \$1.2 billion within three years.

- RBC Capital Markets, 2006

As global Internet usage continues to rise and as consumers increasingly trust the amount of relevant information available on web sites with descriptive names (e.g. bands.com, creditreports.com, carrims.com), the direct search market is poised to grow at a rapid rate. According to Susquehanna Research, direct search could be a \$1 billion market in 2007.

Direct Search: Quality Traffic for Advertisers

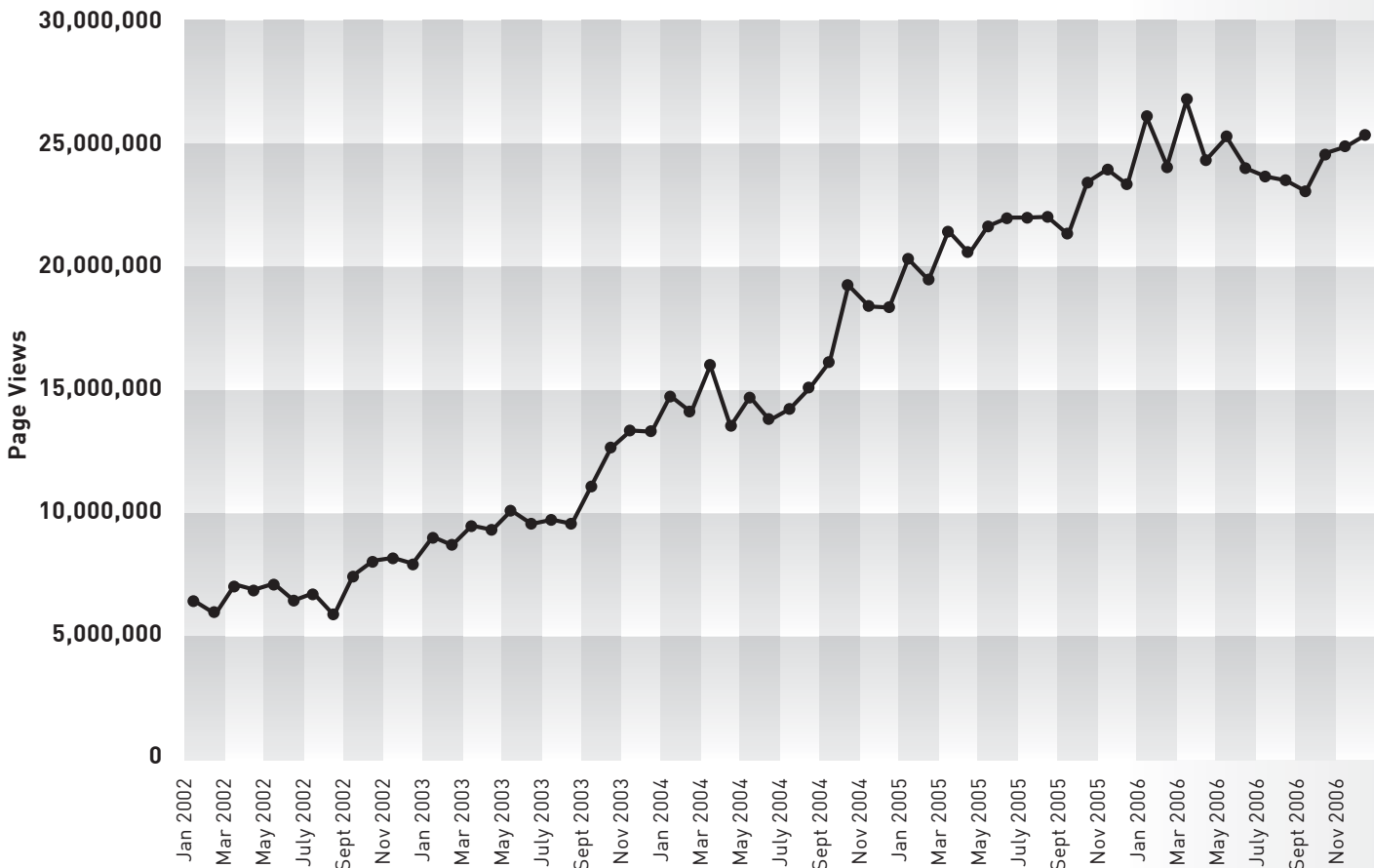
- Users locate a site for the first time using direct navigation between 51-59% of the time (VeriSign, 2005)
- Market is 6% of the search advertising market; growing at 35% a year
- The last scaled source of “primary traffic” where Internet Users start their session.



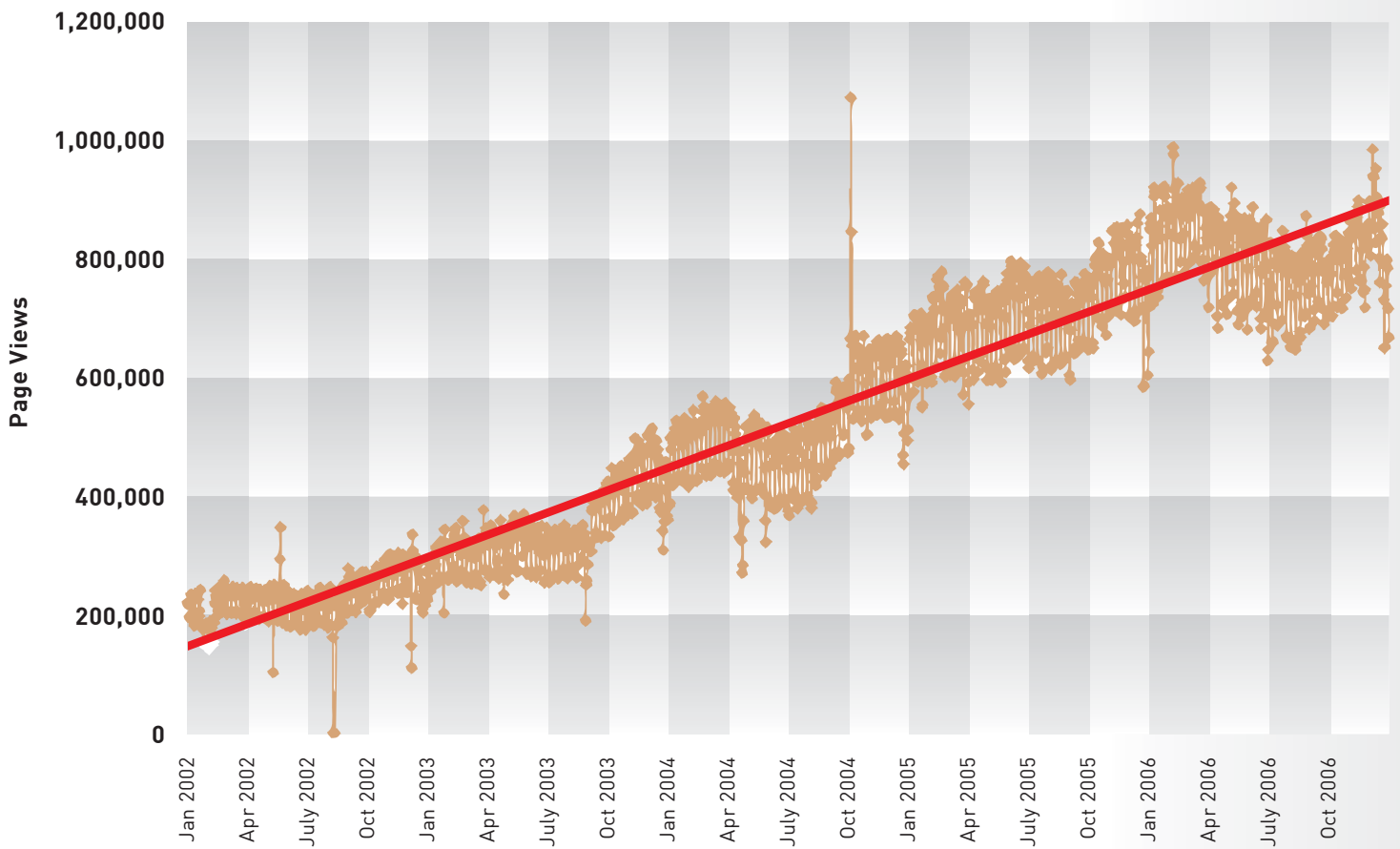
Sustainability / Growth - Case Study With Detailed Findings

- » ICA completed an analysis on organic growth of direct search portfolios from 2002-2006 to understand traffic trends.
- » Data set shows robust traffic consistency and growth over a wide range of domain names and the ICA analyzed over 100,000 web property sample set.
- » Compound annual growth rate (CAGR) on direct search portfolio demonstrates traffic growth of >30% CAGR from 2002-2006.
- » Sample data set is representative and statistically significant for the entire universe of the 5-7M .com domain name market that consistently generates direct search traffic.

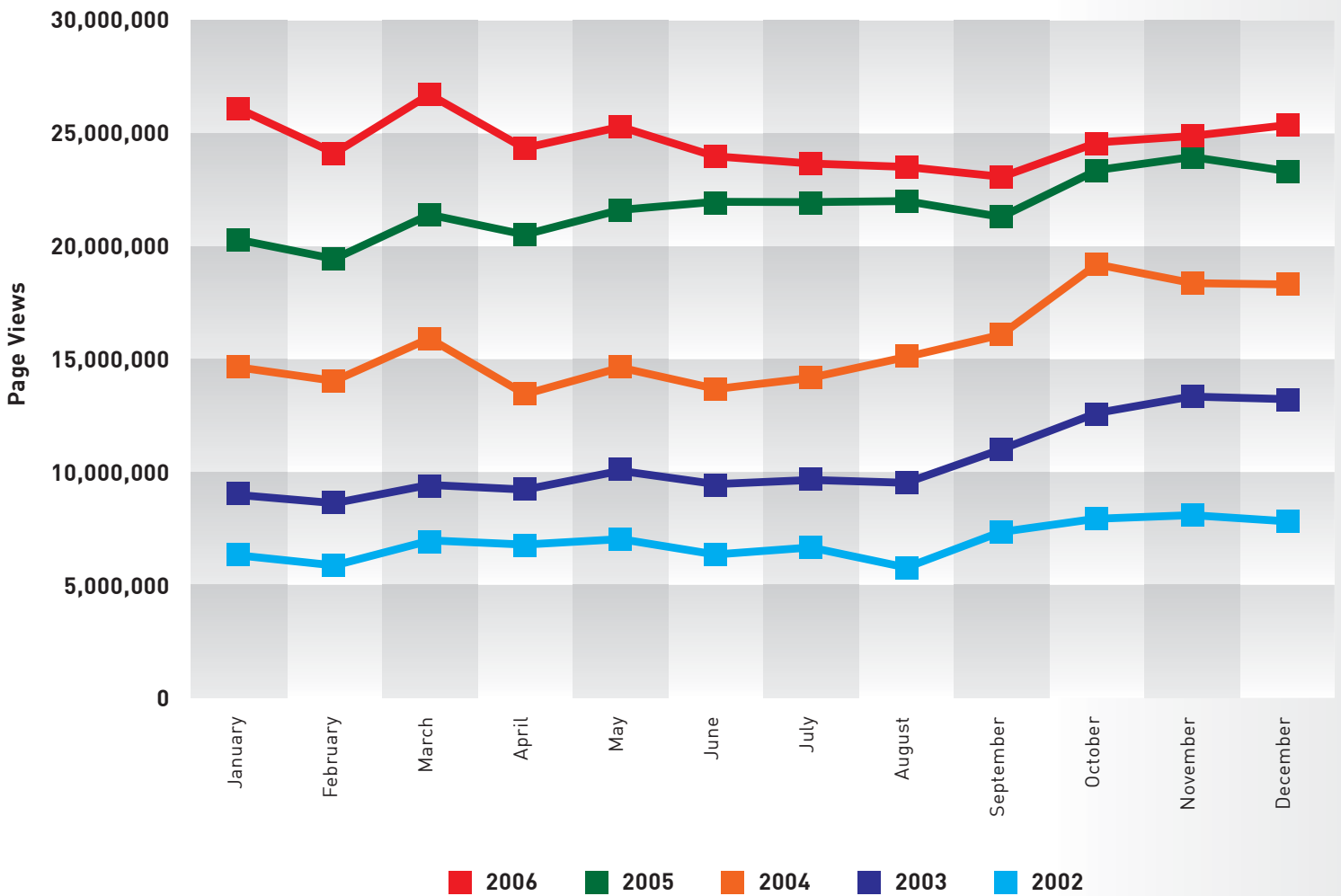
Direct Search Portfolio 2002-2006 Organic Growth



Representative Search Portfolio 2002-2006



Representative Search Portfolio 2002-2006



Proof That Direct Search is Growing and Sustainable

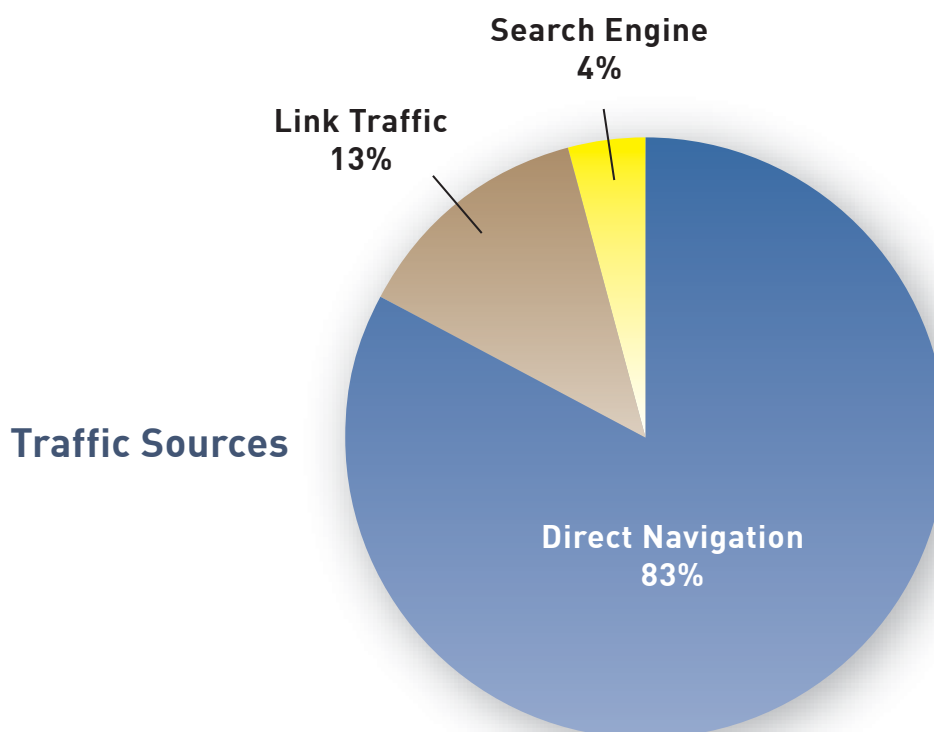
Why future changes to the browser bar will not limit direct search

- » The ICA completed a research project to understand if the browser bar changes embedded within Internet Explorer 7 (IE7) would have an impact on direct search traffic or user behavior as it relates to internet search preferences.
- » At the time of the report, Microsoft has announced that over 100 million copies of IE7 have been distributed, making it the second largest browser to IE6.
- » Results:
 - The research study empirically shows that there have been no statistical changes in the amount or quality of direct search traffic with the browser changes released in IE7
 - As long as people have the ability to type Google.com, Allrecipes.com or ESPN.com into their browser's address bar, they will also be able to type Antarctica.com, CreditReports.com or Information.com into that same address bar.
 - "Path dependency" associated with direct search (typing a search phrase with an extension – primarily .com) is a consumer behavior that has developed since the beginning of the Internet - it very difficult to change an established consumer behavior.

Why future changes to the browser bar will not limit direct search Continued

» Data analysis

- Compared “pre” IE7 period with “post” IE7 period (12/05 to 12/06) for a meaningful sample size of over 100,000 domain names representing approximately 15M page views per month.
- Portfolio traffic sources: 83% of the traffic was from direct search, 13% is from link traffic, 4% from search engines
- Used server log file data
- Results:
 - » Traffic from the aggregate portfolio grew 12.3% between the two time periods.
 - » There was approximately the same amount of traffic from IE (in aggregate) between the two sample sizes (77% in 12/05 and 75% in 12/06)
 - » There was approximately the same traffic from IE7 as the macro Internet traffic data suggests. Approximately 15% of total traffic from the sample portfolio was from IE7, which corresponds to the approximate broad adoption of IE 7 (WebSide Story released a statement on 12/7/06 that IE7 was at 16.29% US market share usage)
 - » No statistically significant variations were noted between or among traffic trends and IE7. Data suggests that IE7 does not have an impact on the growth or trends in direct search traffic.



OVERALL RESULT GUIDANCE PROVIDED BY ICA LEADERSHIP

About the ICA

The Internet Commerce Association is a business organization made up of individuals and companies that own, buy, sell, resell, host and manage Internet traffic which comes from search engines, domain names and Internet links. The ICA represents a consortium of members that collectively own and control more than 2,000,000 internet properties and over 120M visitors per month. (www.internetcommerceassociation.com)

Management

- » **Jude Augusta**, *Executive Director*
- » **Phil Corwin, Butera & Andrews**, *Counsel*

Board of Directors

- » **Frank Schilling**, *Name Administration*
- » **Jeremiah Johnson**, *Sedo*
- » **Juan Calle**, *Straat Investments*
- » **Josh Armstrong**, *Oversee.net*
- » **Bob Martin**, *Internet REIT*
- » **Rick Schwartz**, *World Association of Domain Name Developers*
- » **Ron Jackson**, *Independent Member from DNJournal.com*

**Direct search could
exceed 1 billion in
ad revenue by 2007.**

- Susquehanna Financial,
2005