

The Domain Business Gets Real

By Bob Martin, CEO, Internet REIT

The early days of the domain industry have often been compared to the “Wild West” – a vast, virgin landscape populated by early domainers, typo-squatters, and forward-thinking advertisers. Many in the industry can remember looking with awe (and perhaps a little skepticism) at multi-million dollar domain sales, experiencing the excitement of implementing early monetization strategies and feeling pride at being on the vanguard of an accelerating market.

Today, there’s still plenty to be excited about in our industry: new TLDs and ccTLDs, geo-targeting of IP addresses, local search, the possibility of new IP-enabled devices. The industry is changing quickly, and opportunities are emerging with every shift in the market.

And yet even as the market changes and grows, it is maturing. There are now over 1,000 active domainers, as many as 100 million registered domains and a robust secondary market for domain names. Advertisers are becoming more savvy and demanding better results and more information. Companies are getting smarter and more strategic about how they work together to maximize their share of the advertising dollar. New players are entering the market, bringing new business models and fresh perspectives. Most importantly, legal and regulatory issues are now a big part of the conversation.

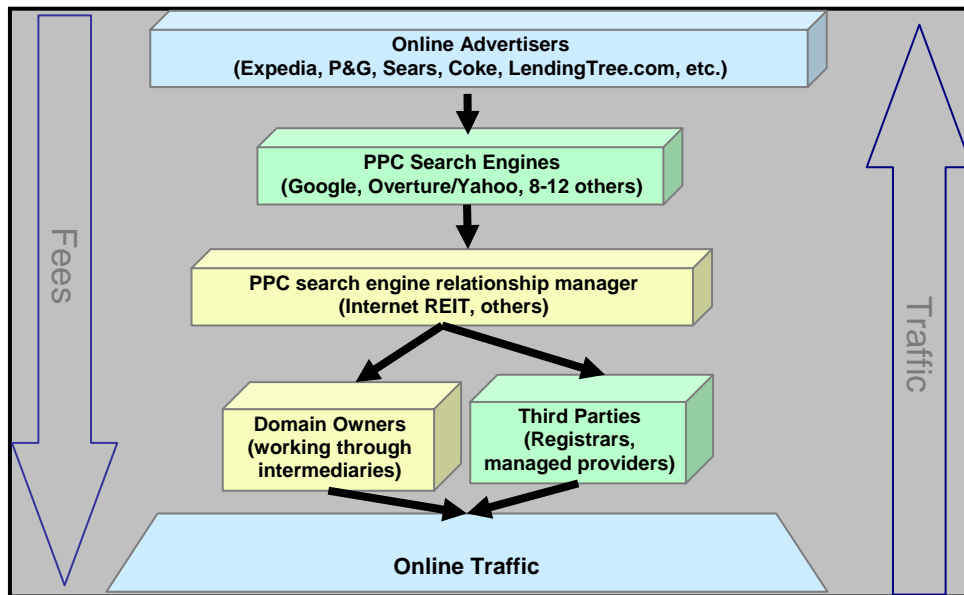
As the CEO of Internet REIT, I am tasked with helping our team of domainers and other industry professionals navigate these often rocky waters so we can continue to build on our successes from the past decade. As part of that effort, we spend a lot of time talking about how shifts in the market landscape will affect the domain community. This article examines key areas of significant industry change that domainers should be watching closely in order to inform their future strategies and thrive in this dynamic market.

Consolidation

Perhaps the most dramatic shift we’re seeing today is industry consolidation, which is having a ripple effect on both the advertising value chain and domain valuations.

As the market has matured and experience with direct navigation has increased, advertisers are becoming increasingly focused on traffic quality and ROI rather than just “eyeballs” or clicks. Changes in Google and Yahoo! advertising models, such as “Smart Pricing”, are facilitating these changes. In addition, we are seeing more direct deals with advertisers and more technology-based advertising solutions that improve monetization rates.

Figure 1. ADVERTISING VALUE CHAIN



In order to effectively serve more demanding advertisers, domainers will need to invest in content development, better keyword optimization and other Web analytics. This shift naturally favors large domainers who are consolidating properties and investing in staff with the relevant expertise. With the resources to invest in infrastructure and apply sophisticated techniques to increase PPC, large domainers can often improve the monetization of particular sites more effectively than a smaller player. Larger domainers may also be in a position to “disintermediate” the middlemen in the value chain and deal directly with advertisers once they have the volume to support this model, further improving the monetization of any given site.

The good news for the industry is that, this improvement in efficiency may have the effect of driving up valuations for everyone. Why? If a larger player can make 5% more on a domain than the current owner because they can more effectively monetize the property, the owner will be in a position to sell an underperforming domain for a premium: it is worth more to someone else than it is to him. It’s a win-win all around.

Valuations

As the market matures, valuations are becoming less about speculation and more about proven performance. At Internet REIT, we look at quality of assets, quality of earnings, the extent to which monetization and development activities have already been proven, and about twenty other metrics – both soft and hard - in determining the value of a domain. This methodology is in stark contrast to the “Wild West” approach of guessing at potential value.

With market maturity also comes a greater need for predictability, which is putting the value of certain types of domain name portfolios at risk. For instance, we see lower valuations on the horizon for anything trademark-related; portfolios with a majority of “at risk” categories (gambling, XXX, etc.) and portfolios with a high percentage of unprofitable domain names or high suspected click fraud activities are also less desirable in today’s market.

Legal and Regulatory Issues

Like other fast-growing technology industries, the domain industry has evolved beyond the scope of existing regulations. The most critical legal issue which has not been resolved is whether domain names are “property” or “trademarks.” Why is this important? If domain names are trademarks, any domain remotely resembling a company’s trademark could be taken away from you.

There are currently different rulings on the trademark issue in different states; for example, Virginia says domains have property rights, California says domains are just trademarks and can be assigned. It’s difficult to know which way the wind will blow with this issue, because there are no federal or international rulings. Even the criteria for deciding what constitutes a trademark are highly subjective. While “Starbucks” may closely resemble the name of a major coffee company, what of “Starbooks”? (currently the site of an Israeli architect, incidentally... and for sale).

Any rulings or legislation on this issue will clearly have a major impact on the industry, and new rulings are no doubt on the horizon. Unfortunately, while trademark holders have been given huge latitude to prosecute, the domain industry does not have a common voice with which to offer an opinion or lobby for our rights.

Industry Cooperation

This community has a real opportunity – and, some would argue, an obligation – to come together with a common voice to promote and protect our industry. Initial efforts are already underway to form an industry association to serve this purpose. An association would continue to teach advertisers the value of direct navigation, lobby against harmful legislation and for a federal law on trademarks. It would look for ways to self-regulate so that others do not intervene on our behalf.

On a grassroots level, we should all be advocates for the industry, whether we’re talking to the press, discussing the industry in a keynote presentation, or working with partners outside the industry. As a community, we need to change the conversation in a way that promotes positive market perceptions about the domain business and counters some of the negative perceptions that are a legacy of the Wild West years.

When we at Internet REIT talk to people about our industry, we like to stress precisely the points I've covered this article: the market is growing, solidifying and becoming more professional. We tell them that there is an increased sense of community and collaboration, with attendance at conferences such as T.R.A.F.F.I.C, ad:tech and the Domain Roundtable growing every year. We also point out that our industry has reached a critical point in its development, where veteran domainers and other professionals have a real understanding of the issues facing our business, the key drivers behind value, and what it will take to influence our own destiny.

Most importantly, we tell them that it's an exciting time to be in our industry, as businesspeople and entrepreneurs converge to create the next Internet frontier.

At Internet REIT, we believe that talent is the most precious resource. Not only are we looking to purchase portfolios of Internet domains names (both large and small), but we're also looking to hire people of high moral standing, a strong work ethic, with a passion for the business and who love a challenge. Please contact us if you have a portfolio that you'd be interested in selling or are looking for the next opportunity in your career (or ideally, both!)