



## Parking or Ecommerce?

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January 31, 2007

### Introduction

The debate as to what is the best use of domain name development will get center stage at the next TRAFFIC conference.<sup>1</sup> Unfortunately, however, even in the absence of financing and capabilities constraints, there is no unambiguous answer, as the decision depends on the risk-return preferences of the domain name owner.

The article sheds some light on the source of ambiguity and outlines some tips to assist in the decision process.

### Taxonomy of Debate

There is no unique taxonomy to address the question. The TRAFFIC conference has phrased it in terms of park vs. develop. However, one can interpret such taxonomy as a continuum of degrees of development. An alternative taxonomy can be based on a website's business model.<sup>2</sup> A second alternative can be based on functionality of the website, such as a marketplace, broker/agent, or market maker.

Below, I consider two business models, parking (which is built on a business strategy of limited product/service differentiation) and ecommerce. More specifically, the question I address is that of when should an owner switch from parking to ecommerce, given the characteristics of the domain name and the owner's risk-return preferences?

### Risk-Return Ambiguity

Ecommerce can provide higher returns than parking because it involves solving a more complicated coordination problem and represents a higher revenue margins business. However, operating costs tend to be higher too. Thus, *ex ante* profits need not be positive. Moreover, the coordination problem and demand uncertainty increase risk.

Nevertheless, the simultaneous increase in risk and expected return can complicate the decision process. For example, consider the following risk-return tradeoffs:

#### Example: Risk-Return Options

	Parking	Ecommerce
Expected Return	40%	50%
Risk	5	10

<sup>1</sup> [http://www.targetedtraffic.com/lv\\_schedule.html](http://www.targetedtraffic.com/lv_schedule.html). Last visited on January 12, 2007.

<sup>2</sup> Business models vary from one with no product/service differentiation to one that is driven by and is integrated with the company's innovation strategy.

Given the above example, two rational domainers looking at these numbers may come to different conclusions. One might prefer parking, while the other ecommerce, as there is no risk-return dominant strategy.

### **When to Switch From Parking to Ecommerce?**

When contemplating a switch to ecommerce, the following issues need to be considered:

1. Not every domain is suitable for ecommerce. The following checklist needs to be completed first.
  - a. Insure the appropriateness of the domain name's TLD signal.<sup>3</sup> For example, ".info" conveys the image of an informational site rather than ecommerce.
  - b. Insure that user intent,<sup>4</sup> as implied by the domain name, is congruent with the content of the to be developed ecommerce website. For example, MusicDownload.com is not suitable for selling music CDs online.
  - c. Verify that the domain name is not more suitable for leasing.<sup>5</sup>
  - d. Verify that the domain name does not infringe on someone else's trademark.
2. If the owner of the domain name is facing a budget and/or capabilities constraint, and thus, not be able to invest in an ecommerce site, the domain name may be leased or co-developed.
3. One way to resolve the decision's potential ambiguity is to simplify the preference decision by looking at the respective alternatives' expected return per unit of risk. Under this simplifying assumption, the respective ratios are 8 (=40/5) and 5 (=50/10). Thus, the parking option, although it has a lower expected return, should be rationally selected.
4. Due diligence:
  - a. Obtain clear and robust estimates of expected revenues, costs, and risk associated with the opportunity cost and cash flow estimation error.
  - b. If you are leasing your domain name to an ecommerce development company, the performance of the manager must be carefully assessed, in that, average performance, in this case, is not a robust performance measure of performance, unless your domain name is an integral part of a managed portfolio. Thus, look at the manager's top performers and lagers. The lagers might have similar characteristics to your domain name, and thus, can provide valuable insight into the success of your domain names.
  - c. To reduce cash flow risk, have your domain names be managed as an integral component of a portfolio of ecommerce domain names.■

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<sup>3</sup> See Alex Tajirian, "[Branding Strategy: The TLD Dimension](#)."

<sup>4</sup> See Alex Tajirian, "[Direct Navigation: Marketing Implications](#)."

<sup>5</sup> See Alex Tajirian, "[Making Sense of Domain Name Appraisals: The B/T Ratio](#)."