



Thoughts on Domain Name Investing for Newbies

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Before diving into domain name investing, ask yourself why. Why do this? Domain names could make you a lot of money. But so could many other pursuits. These pursuits could also lose you money, and so could domain names. The field is a puzzle, like any. Is it a puzzle that you want to solve? Is this the nut you want to crack? You can get an idea right now.¹

You are about to become a combination of detective and businessperson. You must uncover clues pinpointing which domain names are profitable candidates, then filter the good candidates based on ask prices, then determine how best to acquire them. The essay sheds some light on each stage of the investment game.

1. Why do it?

Why domain names? Remember:

- a. You must enjoy it. You cannot succeed in any field, no matter how lucrative, if you don't enjoy it. So where do successful active domainers get their fun?
From:
 - i. Detecting potentially good buys. You need to spot hidden clues and assess their meaning if you're going to narrow down the set of possible acquisitions to high-return prospects. This is not a matter of pure science or number crunching but of following credible leads. See section 2.a below.
 - ii. Negotiating prices with sellers.
 - iii. Finding and implementing a more profitable use of a domain name, which typically involves either development/customization or selecting a better monetizer.
 - iv. Monitoring performance and trends of the domain name's key words, and the industry by visiting forums and attending conferences.
 - v. Monitoring the acquired domain names' expiration dates for renewal.
 - vi. Getting involved in [domainer activism](#).
- b. It is hard work and not easy money. As a latecomer to the game, you must understand that good investments are no longer transparent. Yes, some pundits see a boom coming, but plenty of others disagree. I do see at least two areas of

¹ For analogies with other assets, see Alex Tajirian, "[Domain Name and Real Estate Analogy is Slippery](#)" and "[Review of 'Domain Investing: What You can learn from the Stock Market'](#)."

high-return potential. First, generic domains with their associated typos and superlatives; businesses have started to learn how much these names help branding. Second, direct-navigation domain names, because in the next two years new monetization mechanism will create a spike in their revenues, with the bigger share of profits shifting from owner to developer. New monetization entrants are at last implementing systems for teams of human experts to simultaneously customize/develop a very large number of domain names. Solving the problem will create the next generation of parking monetization, increasing the pie beyond search ad revenue. A number of pundits say they doubt such mechanisms can be developed. Obviously, I beg to differ with them.

- c. Experienced domainers have the advantage. You have to pay your dues and learn from your early flops. Art collection, a field with an even more entrenched set of experts, gives an example of what you can expect. Associated in's and out's are numerous and tough to learn, and in the meantime you pay for your knowledge with one, two, or more costly failures.
- d. A lot of people are getting into domain investing. A lot of eager and inexperienced young fund managers got into the Internet just before the bubble burst. The breed hasn't died out. Obviously, from the points made in section 1.b above, I believe the demand will increase for at least the two classes of domain names mentioned in that section.

2. What is the acquisition process?

The following are the steps that you need to take:

- a. Narrow down your selection. Use detective work to compile a list of domains with high expected returns. (Looking at value tells you nothing about return, as two domain names can have the same value but different expected returns.) The ones at the top of the list are your top prospects.

To find potential top performers, select key words in areas where you have an advantage over the average domain owner. These include key words involving products and/or information that you are deeply interested in and/or know a great deal about. Use [Google Trends](#) to narrow down the list of key words to those that exhibit upward search volume trends.

- b. [Negotiate](#) prices.
- c. Reorder domain names' expected returns based on negotiated prices.
- d. From the top of the list of names, choose all those that fit your budget.

3. Where does positive value creation come from?

For value-adding acquisitions, the offer price has to be less than the value of future profits. As a rule of thumb, because humans tend to over-estimate the value of their own projects, the effective value added is typically no more than a sixth of your estimate of the value added.

There are two ways to make money when buying domain names: buy a name that is undervalued, or one that you can put to a more profitable use. Owning a lot of names will spread out your risk ([risk reduction](#)).

- a. Undervalued. Without getting into a discussion of whether domain names are driven by fundamentals, we can define under pricing as the purchase of a domain name for less than the maximum price you were willing to pay.
- b. Better use of a domain name lies in any and all of the following: developing instead of parking it, selecting a better parking monetizer, selling the name for corporate use, or thinking up a whole new way domain names can make money.

Visionaries like Frank Schilling, Kevin Ham, and Yun Ye saw the value in buying generic but descriptive domain names for informational and e-commerce sites— while Network Solutions was still touting the use of domain names as online storefronts well after the great Internet bubble collapse.

Development can focus on creating sites related to your selected key words or on improving existing Web sites. For the former, focus on users' unmet wants for products/services or niche markets. Alternatively, benefits can come from improving sites' design and/or search engine rankings. In deciding what development strategy to follow, you can rely on inside and outside the box thinking, as well as focusing on the narrative of the problem.

When selling for corporate use, you need to be aware of the sources of value creation and try to avoid some marketing and rhetoric pitfalls. A corporation wants domain names that complement its online presence strategy, i.e., acquisitions for branding, traffic, and protection. This includes [generic](#) and [typo- and superlative](#)-based domain names. An acquisition is value adding (i.e., when expected return more than compensates the investor for the inherent investment risk) for the acquiring entity when the buying price is below the maximum amount they are willing to pay for it, i.e., at least below the breakeven point.

Many monetizers allow clients to replace the main ad key word with one better suited to revenue optimization. Remember that content must be congruent with the domain name's key word. A domain name whose scope is wider than your content's subject won't help you much. If your domain name is BelgianChocolate.com, you can use the key words "Belgian Chocolate,"

“chocolate,” or “Belgian.” But if your content matches up only with “Belgian,” watch out. Your visitors want to read specifically about Belgian chocolate, not anything Belgian. Look for the same pitfall once your site is developed and the time comes for marketing. Choose irrelevant [long-tail](#) key words and you will be visited and abandoned by a herd of disgruntled surfers. One idea: use a domain name with a made-up key word that allows you to expand your future offerings, and meanwhile supplement traffic and bolster branding with key word targeted domain names.

Combined with the above sources of value creation, you might want to avoid domain names with extensions other than “.com” and dormant country-code-top-level-domains (ccTLDs), and hyphen use, as they might be harder to sell. Having said that, there is no compelling reason to believe that a “.com” or a domain with a hyphen is necessarily less profitable than its counterpart, especially when it comes to monetization and registration of new domains.

4. How are domain name values communicated?

There are two common pricing-calculation methodologies:

- a. Price-to-earnings multiple. If you’re buying the domain name at a price based on a fair earnings multiple for the associated risk class, moving to a better monetizer can be expected to create value. If you suspect the multiple reflects overpricing, the revenue increase from a new monetizer will have to be especially big to make up for the overpricing.
- b. [Market value](#).

5. What are the acquisition venues?

- a. Drop markets such as pool.com and SnapNames.com
- b. Marketplaces such as Sedo.com and AfterNIC.com
- c. Direct e-mail to administrative contact obtained through a Whois search
- d. Registrars for new domain names. ■