



Value in New ICANN TLDs

[Alex Tajirian](#)

August 14, 2009

I outline the implications for value presented by ICANN's proposed introduction of [new Top-Level Domains \(TLDs\)](#) on user search and navigation, companies, and registries.

Value creation for a stakeholder is the result of the introduction of useful new tools. Value destruction occurs when new tools makes stakeholders worse off. This is in contrast to the transfer of money between two parties in a transaction that involves existing assets. Value transfers include selling counterfeit products and siphoning traffic away from the legitimate brand owner.

Sources of Value

1. Online Search and Navigation: For the new tools to be value adding they should facilitate navigation, reduce search cost, or provide actionable branding information through marketing. Unfortunately, the new TLDs bring in a mixed bag of value-adding and -destroying tools.
 - a. When a user has no specific destination, key-word search cost for, say, "London hotels" will not be affected. However, when trying to locate a previously visited site, search cost can increase with new TLDs. Examples would include when search results don't include all relevant permutations or do not include the new TLDs. The user will have to go through an extra step. On the other hand, a user incurs additional cost with direct navigation when he or she cannot remember whether the desired site is ".com" or one of the new extensions, and thus the user has to try various combinations or use a search engine. Hence, more choices are not necessarily better (a phenomenon well documented by psychology experiments).
 - b. An effective [marketing message](#) creates value through clearer information about location (a complementary tool to mobile location applications such as [loopt.com](#)) and brand positioning.
2. Companies should register second-level domain names when the value of the resulting profits (i.e., revenue minus cost) is positive, with value taking into account the associated risk. They too get a mixed bag of value creation and destruction.
 - a. Revenue is impacted by permutation confusion with type-ins and offensive registrations.
 - i. The introduction of new TLDs, which, at best, result in a 50-50 chance of the user's search ending at the desired site. This can work against established brands,

as it diminishes the odds of visits. However, TLD confusion would have no net effect in markets that don't feature recognized and dominant brands. Thus, some of the advantages of branding can be lost.

- ii. Offensive domain name registrations are by definition value adding. They provide potential customers with useful information, enhance user experience through ownership of typo domain names, and create benefits from [leasing domain names to brand enthusiasts](#).
 - b. Cost of registration comes from two sources: brand protection, which is a defensive strategy, and brand enhancement such as typos and superlatives. The cost of defensive registrations depends on the final procedures adopted by ICANN and on the rationality of various companies' domain name strategies. Irrational registrations are a result of companies blindly registering large number of domain names containing their brand without looking at their benefits. Nevertheless, companies need to incur the cost to register typo and applicable superlative domain names. Costs associated with rebranding under the new TLDs should also be included in the analysis.
 - c. Risk. A recent [study](#) by McAlister, Srinivasan, and Kim finds that marketing lowers systematic risk and thus increases value. They propose that advertising will create market-based intangible assets that will insulate the firm from changes in the stock market, thereby lowering its systemic risk.
3. Registries can be independent entities or companies. To a registry, the value of acquiring a new TLD is driven by the demand for second-level registrations. Registries benefit from
 - a. fees for speculative registrations and, as noted above, from companies blindly registering a large number of branded domain names. However, long-term profitability is driven by value creation, not speculative demand. The demand comes from new companies and companies that are refining their brand message or rebranding under new TLDs.
 - b. first-come, first-served second-level registrations by preempting competitors. However, there will be no such benefits if ICANN adopts [an auction or lottery allocation mechanism](#).

Concluding Remarks

The net effect on value depends on the TLD and the stakeholder groups. Thus, case-by-case analysis is needed.

1. For search and navigation, the opposing value forces are an increase in the number of TLD options and the benefits of targeted marketing messages.
2. For companies, the value drivers are the cost of defensive registrations, the net effect on revenue, and risk.
3. Registries need to compare the value of multiperiod profits from the demand for second-level registrations to the cost of acquiring the rights to the TLD. ■