.Brannans.com
Confidential & Secure Domain Acquisition

Enterprise Best Practices for Domain Sales & Acquisitions

A Brannans.com White Paper

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The Purpose of This Document

Over the last decade, Brannans.com has served as an independent domain advisor-broker – acquiring and divesting domain name assets for a wide range of business clients from start-ups and small businesses to large, international organizations. Over that time, we have become a member of the community of trusted domain industry professionals and developed a set of best practices to educate and inform our clients, partners, and associates when conducting transactions based on our experience.

This white paper has been created to share these best practices with the domain community and in the public interest.

Part 1 – Valuation and Appraisals

On both buy-side and sell-side transactions, inevitably the conversation returns to the core question, "How much is a domain worth?"

This is a very difficult question to answer directly because – although we are all in the habit of comparing premium domain names to physical real estate, there are also important differences. Domain names are perhaps better thought of as a hybrid of three elements:

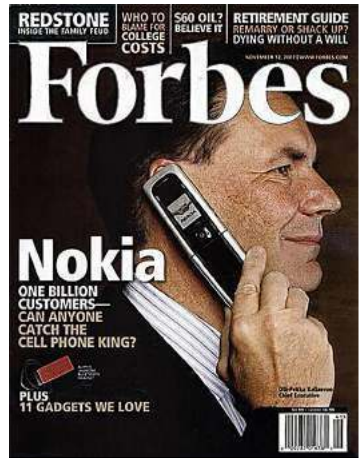
- **Physical Real Estate** – the unique value attributes of a unique location.
- **Intellectual Property (IP)** – the temporal and situational value attributes of IP (e.g., software and patents).
- **Brand Power** – the more ethereal, reputational, and marketing value attributes of brand power.

These can make determining the value of any specific domain tricky.

Avoid Paid Appraisal Services

As previously mentioned, physical real estate is often used as an analogy to discuss domain names. As such, it's an understandable impulse to consider getting an appraisal of that "internet real estate," and there are services that purport to do just that.

While physical real estate values can be effectively estimated by examining comparable properties (comps), that cannot be done effectively for IP and branding power. For example, twenty years ago Microsoft Word, Adobe PageMaker, and IBM Lotus Word Pro were all comparable software packages from major software giants with superior market and branding clout that functionally did the same thing. But clearly, the IP value of each was not the same. And brands have value so long as they are properly nurtured – history is rife with stories of both tarnished reputations and brand redemptions.



Another great example of shifting brand and market value is the incredible shift in the cell phone market. Back in 2007, Nokia – the Finnish telecommunications giant – sat at the top of the market with a dominant market share. Magazine covers trumpeted their leadership, calling them the “cell phone king.”[1] At the time, the branding value – and domain value – of Nokia was very high. But 2007 was also the year that Apple launched its first iPhone and the entire market responded to the new disruptive technology and shifted dramatically away from Nokia.

For these reasons, it is our opinion that domain appraisals are less than effective and can, in fact, be detrimental to negotiations by anchoring a false value perception, higher or lower than market conditions might otherwise dictate. Ultimately, the market will determine the value. And this market value is not only determined by the state of the overall domain market itself, but by the characteristics, circumstances, and number of engaged potential buyers at any given time.

> “Domain appraisals can, in fact, be detrimental to negotiations by anchoring a false value perception higher or lower than market conditions might otherwise dictate.”

Beware of Establishing a Book Value

Assigning a value to corporate assets has an important function. It allows businesses to perform business valuation in acquiring financing, make smart business acquisitions, create tax efficiencies, manage depreciations, and a host of other important business functions. Due to their intangible nature, this is difficult enough when dealing with Intellectual Property like software code, copyrights, and patents.

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[1] Quotation and image credit, Forbes Magazine, November 12, 2007.

Assigning an asset book value becomes even more problematic when dealing with premium domain names. As we have said, so-called domain name appraisals are fundamentally ineffective, and the value of any domain name is contingent on market conditions that change rapidly – sometimes from day-to-day. Further, if a company has assigned a book value to a domain asset it can add unnecessary friction to a transaction.

For example, if a domain is "on the books" for one hundred thousand USD, then accepting a highest-best offer of ninety thousand USD would require the organization to "book a loss" of ten thousand USD on the sale – even if all parties agree that the current offer is fair and in mutual best interests.

Sell-side Best Practice: *Understand that premium domain name assets have a value, but do not assign an independent valuation to them. If a book valuation is required, try to include domain assets as an element of brand equity or grouped in a larger pool of IP assets – allowing them to be divested more efficiently.*

If your sellable domains have already been assigned a book value, there may be legitimate techniques to unlock the value and facilitate a beneficial transaction. Discuss these options with your tax and financial advisors.

The Book-Value of Your Primary Brand Domains

Different from sellable domain assets, assigning a book-value can be important when dealing with your primary company brand domains. These are domains that you hold with intent and purpose in mind and will not be sold under any known circumstance. They are often an intrinsic part of a company's value. For example, **cars.com** has been assigned a book-value of USD $872 million as an "indefinitely-lived intangible asset" on the company's balance sheet.[2]

[2] Calculated using the "relief from royalty" method. Securities and Exchange Commission (SEC) From S-1 Registration Statement for Cars.com, May 11, 2017: https://www.sec.gov/Archives/edgar/data/1683606/000119312517167603/d553683ds1.htm

Since primary brand domains are well-established, long-term strategic organizational assets, calculating their value is outside the scope of this document — entering the realms of investment banking and finance.

Do Not Bank on Black Swan Events

The domain **google.com** was registered on September 15th, 1997. The word "google" is a mis-spelling of the real word "googol" – referring to an unimaginably large number used in mathematics. But since it is not a real word, it is also trademarkable.

Google.com is now one of the most valuable domain names and brands in the world. It has even worked its way into common language as a verb ("I Googled it"). But back in 1997, if the founders of Google – Larry Page and Sergey Brin – had found that domain already registered, they simply would have spelled it differently or found another domain to use.

The point is that if you have an interesting domain in your portfolio it is generally not a good bet to hold on to it expecting it to develop large value at some point. Those kinds of events are very rare and speculative at best.

Relative Domain Valuation Guidelines

The more valuable domains are called "premium domains." As previously discussed, estimating the market value of a specific domain name is problematic at best. However, we can discuss "relative values" to guide our over-all thinking.

What Factors Affect Premium Domain Value

Many factors influence the appraised value of domains, but there are a few attributes that are known to increase the value of a domain.

Domains with Fewer Words

Virtually any one-word, common English-language domain has a higher intrinsic value. Two-word domains can also have value, but considerably less than one-word domains. In general, the shorter, more concise, and easy-to-remember the domain the higher its potential market value.

Generic Domains

One-word, common English, non-trademarked domain names are often referred to as "generic" domains – meaning that their common word usage makes them particularly attractive for branding and marketing purposes. A great example of a valuable generic domain is **flowers.com**, which is owned by 1-800-Flowers.

Generic domains for products and services generally have higher valuations. The more popular or common the related product or service, the higher the potential value of the domain.

Top-Level Domain (TDL)

The term "Top-Level Domain" (TLD) refers to the letters to the right of the dot in any domain name. The original TLDs were .COM, .ORG, .NET, .INT, .GOV, .MIL, and .EDU. Most of these were restricted to certain kinds on non-commercial use. The Country Code TLDs (ccTLD) were added later. Recently, hundreds of additional so-called generic and geographic TLDs (gTLD) have been added.

> "Under current market conditions and for the foreseeable future, .COM domains continue to have the highest commercial valuations relevant to enterprise organizations."

Generally speaking, under current market conditions and for the foreseeable future, .COM domain names have the highest commercial valuations relevant to enterprise organizations. Certain other TLDs – including some .NET, .IO, and regional – may also have market value. But those domains have far lower valuations than comparable .COM domains as a rule.

See "Additional Domain Acquisition Strategies" below for more information on when different TLD domains may be important to your business.

Total Domain Length

Some of the most valuable domains are simple combinations of letters and numbers that may or may not form words at all. Just because the letter and number combination in a domain does not make sense to you and your business now, don't assume that it doesn't have significant value for another business when placed in the correct hands. Professional domain advisor-brokers deliver value to clients by finding these opportunities.

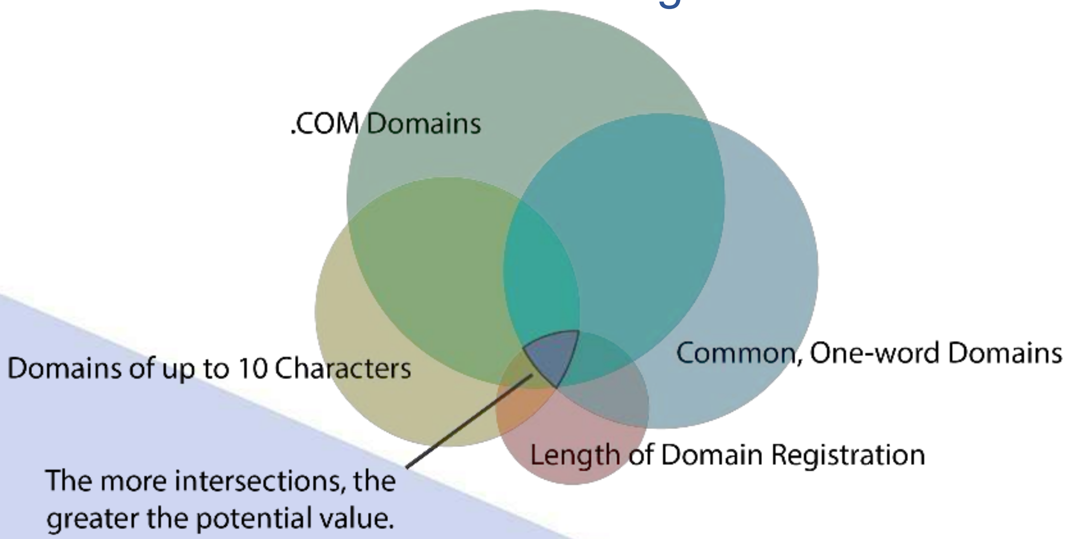
Generally speaking, the shorter a domain name, the higher the long-term value. Domains of up to ten characters in length usually have more value.[3]

Longer Registration Is Better

Even if a domain has been idle for years – even decades – length of registration can be a plus in many circumstances. That's because a domain with a long history is likely going to retain traffic value from its previous use going forward.

Your domain advisor-broker can help you determine how long a specific domain has been registered and even if and for what purpose it may have been used in the past. These are not only important factors when considering value, but also in protecting your business reputation.

Domain Relative Valuation Diagram



Other Considerations

Some combinations of letters and numbers are naturally easier to remember and pleasing to the ear than others. At Brannans.com we refer to this attribute as "the radio test" – would a domain be memorable, easy to remember, and easy to type into the search bar of a computer or mobile phone if it was heard spoken on the radio. For example, if you speak the word "barbeque," the listener may be accustomed to spelling it in a variety of ways depending on regional preferences and common mis-spellings, such as; BBQ, Bar-B-Q, barbaque, etc.

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[3] As of this date, there are only three single-letter .COM domains in use (q.com, x.com, and z.com) with a fourth (o.com) being actively considered.

There are also cultural references that can accomplish branding and marketing objectives. Like all social trends and slang, sometimes this value is transitory.

These kinds of attributes are impossible to quantify until examined in context and contemporaneous market conditions.

Trademarkable Domains and Cybersquatting

Domain names containing trademarked words or phrases (e.g., Kleenex, Pepsi, Samsung) may have significant branding and market value to their trademark holder. But there are rules and processes to help businesses protect and acquire domains containing legitimately trademarked words, phrases, and combinations. This can greatly limit or fully eliminate any resale or investment value.

Intentionally acquiring trademark-phrased or intentionally misleading domains in an attempt to capitalize on user confusion or to extort payments from trademark holders is often referred to as "cybersquatting." Cybersquatting is universally rejected as a practice by all legitimate domain industry professionals. In fact, in 2008 Verizon won a multi-million-dollar tort case against a company that they proved was intentionally cybersquatting.[4]

Note that it is not uncommon for a business or individual to legitimately own and/or use a generic domain that may contain trademarked terms. The generally accepted international rules of trademark protection have been applied to domains:[5]

- Prior Use – A domain owner is not cybersquatting if the domain was owned and/or used prior to the copyright or trademark being assigned or used by the current trademark holder.
- Generic Language and Common Usage – The ownership and use of domains consisting of generic language and words are not cybersquatting. Likewise, combinations of words in common usage are also not cybersquatting.

[4] "Verizon wins largest ever 'cybersquat' case" – December 24, 2008: https://www.marketwatch.com/story/verizon-wins-largest-ever-cybersquat-case?dist=msr_1

[5] Important disclaimers are included at the end of this document and we recommend that you consult with legal professionals with regard to all issues of applicable law.

Part 2 – Safety, Security, and Trust

There is an old expression, "Good neighbors are made by strong fences." This is true in every business situation, and the domain industry is no exception. It is not just a best practice – having all the documentation in order is mission critical.

Brokerage Agreement

When you are working with a domain advisor-broker, make sure that you are operating under a written agreement of representation – a Brokerage Agreement. This written agreement should detail:

- The general terms of the agreement.
- When and how much the broker will be compensated.
- When the agreement will expire.
- What domain assets are targeted or included.
- Whether or not the agreement is exclusive.
- What services the broker will perform.
- The use of domain escrow (see below).
- When and under what conditions the agreement can be cancelled.
- The process for resolution or settlement of any related dispute.

Mutual Non-Disclosure Agreement

It is important to be able to speak candidly with your domain advisor-broker – including the mutual sharing of strategies, objectives, and techniques. That's why we strongly recommend that every domain transaction – buy-side and sell-side – ensure that a Mutual Non-Disclosure Agreement (MNDA) is in place. On larger transactions this will likely be a separate document. On smaller transactions, the Brokerage Agreement may contain standardized MNDA text.

Buy-side & Sell-side Best Practice: *Ensure that a brokerage agreement and MNDA are in place and that you understand them thoroughly.*

RECOMMENDATION

There are several reputable domain escrow services. At Brannans.com we recommend Escrow.com to all of our clients due to their steller track-record.

Domain Name Escrow

In all domain transactions – from a simple one-domain transaction valued at a few hundred USD through super-premium domains and portfolio deals worth millions – utilizing a recognized and reputable domain escrow company is a vital element that protects all parties to the transaction. Domain escrow services do carry a cost, but it is a cost well worth it for security and peace of mind.

No ownership payment, compensation of any kind, or side-agreement should be made outside of the escrow account.

Buy-side & Sell-side Best Practice: *In every instance, ensure that the transaction is conducted through a reputable domain escrow service.*

There are no exceptions.

Part 3 – The Value of Time

In all cases – for both buy-side and sell-side transactions – time may be your greatest asset. That does not mean that having unlimited time is to your benefit. Quite the opposite. Having too much time available can add difficulty to any negotiation. But having a disciplined strategy that controls the timing can be a substantial asset.

Once a decision to acquire or sell a premium domain is made, there is a natural impulse to want the transaction to be concluded as quickly as possible. Other factors – such as financial or other business imperatives – can also drive a sense of urgency. Professional domain advisors and brokers understand how to deal with these kinds of stakeholder needs.

But understand that if you are on the sell-side of a transaction, having the benefit of time will allow for thorough research to identify more potential buyers and complete negotiations. Likewise, if you are looking to acquire a domain, time

flexibility can strengthen a bargaining position and have a significant impact on the initial asking price. Our general recommendation is to allow 90 to 120 days for the most favorable results.

Buy-side & Sell-side Best Practice: *Whether buying or selling an individual premium domain, allow 90 to 120 days whenever possible – excluding regular holiday periods – for the acquisition or sale to be properly researched, negotiated, and finalized in order to place you in the best possible negotiating position.*

If you are dealing with a portfolio of domains, it may be best to work with your domain advisor-broker to prioritize the list and work on a select subset over time. This not only provides a focus, but it limits the intensity you will experience.

For example, if you are managing the liquidation of a portfolio of one hundred domains, it may be difficult to timely consider and respond to one hundred different inquiries simply as a matter of work flow. In such a case, consider that actively marketing ten to twenty at a time will allow you to maximize your return without the process becoming disruptive to you other work priorities.

Part 4 – The Value of Anonymity

Whether you are on the buy-side or sell-side of a domain transaction, anonymity can be a benefit to an enterprise organization. The reasons can be fairly obvious:

Buy-side Acquisitions

- A seller's perception of a buyers purchasing-power can influence price.
- The acquisition of a domain can signal strategic business initiatives.

Sell-side Divestitures

- Observers may speculate on the sale or transfer of IP assets.
- Markets may anticipate the impact of IP sales on financial performance.

As with any enterprise asset purchase or sale, there are methods to protect anonymity – for example, utilizing an outside law firm to facilitate the transaction. However, remember that once a domain is placed into use or is redirected, the transaction will become common knowledge.

In many cases, the total value of a domain transaction is incidental to the operations and anonymity is not a concern.

***Buy-side & Sell-side Best Practice:** Consider the relative value of anonymity in your circumstances. Ensure that your preferences are included in your Broker Agreement and MNDA documentation and discuss the options candidly with your domain advisor-broker.*

Part 5 – Additional Domain Acquisition Strategies

Defensive Domain Acquisitions

Most of the time when an enterprise is seeking to acquire a premium domain name it is for competitive/offensive purposes, such as marketing existing operations or launching a new product or venture. However, domain acquisitions should also be considered for defensive reasons as well in order to prevent competitive interference and to protect business reputation.

Defensive acquisitions can include:

- Plural forms of target branding and generic domains.
- Common mis-spellings of brand and generic domains (see “typo-squatting” below).
- Similar and optional domains.

Typo-Squatting

Previously we discussed the black-hat tactic of cyber-squatting. Given the successful defense of trademarks in domain cases, a variant tactic has emerged. In typo-squatting, a person will acquire domains that contain common misspellings or typographical errors of popular domains. The intent is often to siphon-off traffic from those popular sites. But in the worst cases, the goal is to trap, mislead, or steal information from the user.

When done with intent, several prominent court cases have found that typo-squatting is de facto trademark infringement and significant penalties have resulted for the squatter. In order to avoid the time and effort of dealing with

such cases, consider the value of anticipating potential errors and misspellings of your primary domain brand and acquire them in advance.

Internationalized Domain Name Variants (IDN)

If your organization does business internationally – or if international expansion is a part of your strategic plan – ensure that you consider International Domain Name variants (IDNs). IDNs can include geographic variants as well as non-English versions of premium domain names.

Geographic IDN Variant Example

Currently in all English-speaking countries, .com domains are typed by most users by default. This is also true in most other countries. It is this attribute that gives .COM domains so much marketing and branding power. However, there are some exceptions – notably Germany. In Germany, the .DE ccTLD has significant market penetration and user acceptance.

IBM owns **ibm.com** as their primary domain. But they also own the **ibm.de** geographic ccTLD domain to support their business operations in Germany.[6]

The point is to evaluate the long-term value of adding geographic variants of your primary domain in current and future markets.

Non-English IDN Variant Example

As mentioned previously, the primary domain for 1-800-Flowers is **1800flowers.com** and they have acquired the premium generic domain **flowers.com** to support their marketing efforts. But their service area includes substantial Spanish-speaking regions, so they have acquired the Spanish-language version of their generic domain – **flores.com** – to serve this important target market.

Buy-side Best Practice: *When seeking to acquire a target domain, work with your domain advisor-broker to evaluate defensive domain acquisitions and IDN variants as a part of your corporate domain and branding strategy.*

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[6] As a part of their international domain strategy, IBM control dozens of geographic domain variants.

Summary

Businesses and enterprise organizations have realized the importance of premium domain names to their branding, marketing, and competitiveness. This has created a thriving market for new registrations and resales with active participation and demand on both the buy-side and sell-side.

Determining the current market value of a particular domain is difficult due to the inherent valuation challenges of IP and corporate brand assets. But there ae some best practices and strategies that can help determine relative valuations and ensure that transactions are fair, completed successfully, address company objectives, and deliver value to all parties.

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Comments & Suggestions

If you have comments or suggestions regarding this document, please send them to Brannans.com using the contact information below.

About Brannans.com

Domain Names are the most valuable business assets of the internet age – serving as both virtual real estate and corporate brand. Brannan's is one of the world's leading buy-side and sell-side brokers of premium domains with more than a decade of experience helping owners capture the value of their digital assets and enterprise organizations locate and acquire the domain properties that maximize their brand.

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