



When To Buy Traffic Domains?

Traffic domain names have established website visitors from search engine result-links (Google.com, MSN.com, etc.), directory websites sites (dmoz.org, Yahoo.com), bookmarked links, referral links from other websites, or browser type-ins. There are three distinct types of traffic domain names: recently expired domain names, parked domain names, and established websites. I will use parked names to highlight the issues and pitfalls that need to be considered when buying such names.

Parked domain names generate revenue through user clicks, which is achieved by placing advertiser links on a Web page. Every time a visitor clicks on any of the links, the advertiser pays the domain name owner a pay-per-click (PPC) fee.

The three financially sound conditions to buy a traffic domain are:

1. **If it is under-priced.** Irrespective of the volume of traffic, you do not want to pay the owner its market value, i.e., the present value of its expected stream of future income. Paying the market price is tantamount to engaging in a zero profit transaction; a transaction that involves the fair tradeoff between a fixed lump-sum payment today versus a value-equivalent stream of future cash flows. Thus, a Net Present Value (NPV) is a zero transaction. To make real economic profit, your purchase must be a positive NPV transaction.

Under-pricing can be a result when the owner is willing to sell it at a discount or when your valuation of the expected future income is higher than the current owner's, other things held equal.

Without an active exchange market in the specific domain name, the market price is clearly not observable. Thus, you need to either estimate it yourself or use a domain name appraiser.

2. **If you can add value by improving the quality and accelerating the volume of traffic.** In this case, you would be willing to pay the market value of the domain name, as the accelerated traffic growth results in a positive NPV transaction. However, you need to be careful not to overestimate the potential of increased quality (the revenue per visitor) and traffic volume.
3. **If you can manage the parked domain more efficiently by reducing operating costs.** For example, if you were managing a portfolio of parked domains, you would be able to lower average management cost of the domain names.