Domain Name Liquidity and Development through Unbundling

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Creating a market for shares of a domain name benefits owners, industry, and providers of capital.

To develop a domain name now, the owner has to either finance the development through internal funds or seek financing through one of the general capital providers or domain name specialists.

A superior venue for both the domain and capital owners is through unbundling of the domain name or the portfolio of names. That is, the owner should raise money by selling a stake in the domain name. To create market liquidity, the stakes need to be standardized. For example, each share could represent one percent of the value of the domain name, irrespective of the value of the associated Web site. (Based on Web site ownership, an investor faces two unrelated risks: market price risk and development risk. The latter, being driven by the actions of the domain name owner, would be unacceptable to the investor.) The shares could then be traded on domain name marketplaces.

An unbundled market mechanism would create an exit option for the providers of capital, reducing their risk. Lower risk reduces the cost of capital, which benefits domain name owners and increases the number of economically viable development projects. A market for such shares benefits the entire industry by increasing liquidity and by providing informational and production efficiency. ■

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