DomainMart

# Likelihood of Sale, Given a Domain Name's Ask Price?

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**Abstract**
Unlike current domain name appraisal approaches of providing a range of value estimates, our new methodology uses a statistical technique to estimate the likelihood of a sale for a given ask price. The paper adopts classification tree-regression techniques on a dataset that combines information on sold and unsold domain names. Preliminary results on the model's predictive power are very encouraging.

## Introduction

When selling a domain name, it is not enough to estimate a range of market values. Because of the market's illiquidity, especially with brandable domains, the seller needs to know the likelihood of a sale at a given ask price. This is especially important when using value estimates based on comparables.

The comparables methodology, whether statistically or human driven, is based on the following steps:

1. Determine the characteristics of the domain name to be appraised.
2. Determine a set of predictive characteristics.
3. Find sold domain names with comparable characteristics.
4. Find the average sale price of the comparable domain names.
5. The appraised value of the domain name is the average of the comparables.

This approach, however, does not take into account comparable listed domain names that were not sold during the same study period. Thus, the current comparables approach ignores a rich body of information, which is precisely what our new methodology incorporates into the estimation model.

## Methodology

We use the classification tree-regressions statistical technique to estimate the likelihood of a sale. The model is similar to statistically estimating a logit/probit regression, whereby the variables to be predicted take only discrete values: sold or unsold. Using the estimated model, one can then predict the likelihood that a particular domain name will be sold at a specified ask price.

The predictors used are the ask price and control variables, with the latter being branding and traffic values of the domain name.[1] Thus, the experiment in question boils down to: holding brandability and traffic values constant, what is the likelihood of a sale for various ask prices?

## Data

Domain name listing and sales data is obtained from AfterNIC.com. Unsold names that were included in the dataset had to have an explicit ask price. The ask price for a sold domain name is assumed to be its market purchase price.

## Results

The dataset was randomly divided into two groups: one used for estimation, while the other for testing the accuracy of predictions. The preliminary results are very encouraging.

## Concluding Remarks

This methodology represents another step forward the quest to come up with better estimates of domain name value. Due to the lack of detailed listing information, one is unable to determine how long a sold domain name was actively listed on a marketplace. Moreover, a refinement of the model considers whether an unsold domain name can be attributable to a relatively high ask price or some other factor. For example, are high brand-to-traffic ratio (B/T) domain names remaining unsold for shorter periods than high traffic domains?

Two other interesting lines of investigation are whether the average listing periods vary across marketplaces[2] and whether unsold domain names are "burned," in that they suffer value loss if not sold within a period of time.

The model is being extended to estimate a domain name's liquidation value.

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[1] For a list of the proxies used in estimating the branding and traffic values and data description, see Alex Tajirian (2006), "Appraisal Based on Estimating the Value Generating Process," DomainMart.

[2] See Alex Tajirian (2006), "Price Inefficiencies in Domain Name Markets: An Empirical Investigation," Domainmart.