



Domainer–Madison Avenue Reconciliation*

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1. Introduction

The paucity of domain name acquisitions by Madison Avenue, as a complementary advertising platform, has been widely attributed to the misalignment of incentives between the advertising agencies and domain name owners. However, we argue that advertisers need to first consider additional factors in the selection of their domain-name ad agency and must understand the risk-reward relationship associated with domain name acquisitions. We also put forth recommendations to bridge the knowledge gap between the stakeholders (namely, advertisers, ad agencies, and domainers).

We first look at alternative compensation arrangements between Madison Avenue and ad agencies and outline the decision variables necessary for an efficient compensation arrangement. Based on these variables, we derive the key implications for advertisers and domain name owners.

2. Compensation Arrangements

For the most part, compensation arrangements between advertisers and ad agencies fall into one of three broad categories: flat fees, compensation based solely on performance, and the combination of a set fee with performance-based rewards.

Deciding which approach to follow depends a lot on the following:

- a. Whether the performance metric¹ is measurable² *ex post* and *ex ante*.
- b. Whether the cause of out- and under-performance can be identified. (Is *ex post* performance attributable to the general industry environment or to agency-specific actions?)
- c. How much initial investment is needed for the ad agency to successfully manage a campaign.
- d. The advertiser's appetite for risk.

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¹ The performance metric needs to be appropriate, such as ROI. A measure, such as CPM, needs to be qualified for the relevance to the audience.

² Measurable in that performance results can be statistically verified.

3. Advertiser Implications

The compensation arrangements outlined above lead to the following actionable implications for the ad agency and the advertiser:

- a. (2a) and (2b), above, suggest the need for both sides to be comfortable with analytics. (2c) suggests that the ad agency needs to feel comfortable with capital budgeting analytics. (2d) suggests that even if the expected return on a domain name acquisition is positive, the advertiser need not approve a campaign if it represents a high risk-to-return tradeoff.
- b. An advertiser needs to select an ad agency that understands domain name industry trends.³
- c. Don't look for one ideal compensation arrangement that suits all domain name-based advertising campaigns. When it comes to aligning the interest of the ad agency and that of the advertiser, different marketing venues require different approaches. To take one example: no matter how small the initial outlays might be, compensation based solely on performance may be a poor long-term choice if performance can be measured but the causes of success or failure cannot.

4. Domainer Implications

Domainers, like the ad agencies, need to be more comfortable with domain name analytics. It is not enough to rely on, say, trend reports that do not disclose their methodology or the sources of their data. S-curve estimation, for example, is an extremely valuable tool, especially when selling domain names to sophisticated clients.⁴

5. Concluding Remarks

- a. Successful acquisition will be based on domain name-specific as well as industry-wide analytics.
- b. Advertisers need to design an advertising performance compensation arrangement that correctly aligns their interests with those of the selected ad agency.
- c. The ad agency responsible for online campaigns must understand domain name analytics.■

³ For example, the illiquidity of the marketplace can be a blessing for advertisers. Advertisers are buying domain names for the long term, so liquidity is not a major variable in their decisions. By contrast, domainers' desire for liquidity and immediacy can present advertisers with valuable opportunities.

⁴ For additional implications, see Alex Tajirian, "[Madison Avenue & Direct Navigation Domain Names](#)," DomainMart.