Injecting Valuation Standards in Domain Name Transactions

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July 6, 2011

The question of trusted valuations is one of the major nagging issues that face domain name owners. Now it is becoming more urgent because corporations have finally recognized the importance of acquiring domain names for branding and traffic. Because corporate buyers are pressed for time and don't want to absorb valuation risk—which arises when the appraised numbers cannot be relied on or when things go bad with acquisitions—managers are looking for standard valuation models and service providers that they can justify based on rigor and data.

The time has come to be realistic and abandon fruitless attempts to develop proprietary valuation methodologies.

Relying on rigorous standard valuation models does not rule out negotiations between buyers and sellers. *Au contraire!* Corporate end-users still need help when choosing domain names to acquire and when they negotiate value, and often enough price is only one of the negotiated parameters. Because negotiations are between unknown parties, for one thing, neither party would be willing to go first and name a price. A recognized method for establishing credibility is to use a mutually agreeable third party, either a mediator or a recognized appraisal service that will provide an unbiased estimate of value.

The following highlights the need for trusted rigor:

1. Domain names are not recognized as collateral. Bank managers don't have the time to look into your proprietary methodology, nor do they want to take valuation risk, especially if the valuation doesn't rely on publicly available data. Don't try arguing that domain names are special and require nonstandard models. No matter how good your models may be, the argument will get you nowhere.

2. Corporate end-users, already facing the time and risk issues outlined above, are easily fed up with domainer rhetoric like "They just don't understand." Corporate buyers have to justify acquisition prices to management. They seek the quantifiable. Andy Grove, former CEO of

Intel, reportedly would not consider any idea if it did not have supporting data and a rigorous methodology.

3. When bankruptcy trustees and judges don't trust our industry-specific models, it creates price distortions and increases mistrust of our industry that depresses general domain prices.

To meet the challenge, industry has to shift gear. Unfortunately, there is no other solution. But the challenge is not that difficult, as the change will help service providers as well as domainers. The providers, who typically also manage marketplaces, would enjoy higher appraisal prices, higher sale prices, and higher volume, making up for the loss of the $25 fee they now charge for appraisals. For domainers, the benefits would be increased sales and prices to end-users, and the ability to use their portfolio as a collateral for, say, financing Web site development.

The shift also promises two secondary but important benefits. Abandoning our own acronyms would make it easier for mainstream media to cover the industry. Consider that one reason for limited coverage of the telecom industry is the sheer number of acronyms that journalists have to master. And an improved reputation for the industry as a whole will have a positive impact on other services, not just the appraisers.

There are already signs of change. One of the leading consulting firms recently announced that it is abandoning its proprietary valuation services because of their uselessness. The remaining consultants need to consider the strong likelihood that appraisers, marketplaces, and domainers will make more money once standard valuation methodologies become the norm. ■