



## Network Solutions - Domain Name Registrations via Auctions?

Alex Tajirian

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### Introduction

[Network Solutions](#) (NSI) seems to be gearing up to launch an auction-based domain name registration service. It has recently launched [NameJet](#), its own auction Web site for expired domains, which were previously outsourced to SnapNames.

Registration auctions make economic sense from the perspectives of NSI, registrants,<sup>1</sup> and the domain name ecosystem. Such a mechanism increases NSI's revenue, while creating thickness in the registration market that increases efficiency and further reduces bad domain tasting.<sup>2</sup>

In this essay we outline NSI's viable options for increasing thickness, options that strengthen the argument for moving toward auctioned domain registrations.

### Why Is Thickness Important?

Thin markets do not have enough matched buyers and sellers. As a consequence, the allocation of an asset in such markets typically does not go to its best use.

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<sup>1</sup> See Alex Tajirian, "[Toward A Three-Regime Domain Registration: Generic, Idea, IP](#)," DomainMart.

<sup>2</sup> The practice refers to registering hundreds of thousands of domain names and testing them for their potential to generate ad revenue. After five days, the ones that "taste good" are kept, the others are canceled for a full refund.

Moreover, in some situations, thinness can harm the industry's ecosystem.

The market for domain name registrations is thin and provides a fertile ground for domain tasting, which can have an indirect negative impact on the domain name industry. Thinness in domain registration markets is caused by the current allocation system, which is first-come, first-served. Thus, the current mechanism does not allow for multiple offers on the same domain name or for protection of intellectual property.

### How to Create Thickness?

There is theoretical and experimental evidence that markets can be thin when transactions are made quickly and at dispersed times.<sup>3</sup> This is the case with domain name registrations, which are instantaneously allocated to the first requester and can be made at any time.

Thus, to create thickness, the current domain-name instantaneous allocation system has to be modified so as to allow others an opportunity to consider and to bid for desired domain name registrations. The following are two plausible scenarios

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<sup>3</sup> Muriel Niederle and Alvin E. Roth, "Making Markets Thick: Designing Rules for Offers and Acceptances," Working Paper, May 30, 2007; available on-line at <http://kuznets.fas.harvard.edu/~aroth/papers/ExplodingOffers.pdf>.

for providing an opportunity for multiple bids:

- a. Registrars notify companies when a request to register a domain name that contains a specific key word is submitted.
- b. Registrars periodically publish lists of requested domain names.

Both of the above scenarios increase thickness because decisions are not made quickly and at preset frequencies.

Below are additional possibilities for increasing market thickness, with their adoption desirability for domain name registration markets.

- a. In the laboratory, under some conditions for making offers, markets move toward thickness if firms are not allowed to make a large number of simultaneous offers (“exploding offers”). Although it is possible in theory to limit an entity’s number of simultaneous registration requests, doing so would put unnecessary restrictions on the market and create incentives to cheat. Hence it is not a desirable solution.
- b. Thickness also increases when firms can make exploding offers so long as candidates can subsequently change their minds without too much cost. However, in domain name registration markets, the option of a registering entity to change its mind, which is tantamount to a full refund grace period,

has created the opposite effect and has resulted in tasting.

**Tasting: Causes and Implications**

Tasting has been fueled by the current ICANN-sanctioned provision that allows domain name registrants to get a full registration fee refund within five days.<sup>4</sup> ICANN (the Internet governing body) is considering a number of solutions to domain tasting.<sup>5</sup>

There are two broad undesirable consequences of tasting: coercion and a negative impact on the industry.

- a. Coercion occurs when a domain owner registers a domain name for the purpose of exploiting intellectual property to extract monetary payment from trademark or brand name owners.
- b. Domain name registrations that infringe on an entity’s intellectual property not only pose legal challenges, but can also have a negative impact on the experience of Internet users.

**Concluding Remarks**

NSI’s move into auctioned generic domain registration is economically viable, as it creates market thickness by allowing multiple bids on domain name registrations at less frequent intervals. However, its success also hinges on ICANN abolishing the five-day registration refund grace period.■

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<sup>4</sup> See Alex Tajirian, “[Every Domainer Is Subsidizing Tasting ... Abolish Registration Grace Period](#),” CircleID.

<sup>5</sup> For some of the solutions being considered by ICANN, see <http://www.icann.org/announcements/announcement-2-10aug07.htm>.