DomainMart

Parked-Domain Appraisal Methodology

The valuation service is based on the Net Present Value (NPV) methodology, whereby the expected cash flows (CFs) are estimated by assuming that the domain name is parked to generate traffic revenue. The strength of the approach is that it can be applied to any domain name irrespective of whether it is parked or not.

The traffic income business model focuses on domain names that generate clicks. This is achieved by placing advertiser links on a Web page. Every time a visitor clicks on any of the links the advertiser pays the link manager a fee, i.e., pay-per-click (PPC).

The availability of reliable public information on keyword searches and revenue from PPC advertising have made valuation based on traffic income a compelling domain-name valuation methodology.

The advantages of the income-based over the market-based methodology are founded on the following facts:

1. The median sales price of catalog listings is about $500. Moreover, only a small number of sales are in the tens of thousands. Thus, applying statistical models to value premium domain names will not yield precise estimates.

2. For a specific level of website traffic, the extension of a traffic-revenue domain name should be irrelevant, holding other factors constant. However, sales data suggests that .com names commands a considerable premium, even after controlling for keyword composition. Thus, using an income approach for such domain names yields a more accurate appraisal.

3. Hyphenated domain names, as in (2) above, would be undervalued by a statistical model.

4. Historical market prices, especially those for domain names sold on auctions, suffer from asynchronous demand and supply, whereby not all parties interested in the domain name would be aware of its sale or willing to commit by the end of the auction. Thus, the sale price might not reflect the market’s true willingness to pay for the domain name.

5. The income approach allows various CF scenarios to be considered, typically a “best case,” a “worst case,” and a “middle of the road.” Such an analysis provides a more intuitive picture of the range of possible market values.

The advantages of DomainMart’s hypothetical parked domain name methodology over using historical data from parked domain names are:

1. Grouping comparable parked domain names based on historical data involves considerable classification error (incorrectly including sales within a group of “similar” names or excluding sales belonging to a group), especially in clusters with few sales data. Thus, the results would be less reliable. This error is magnified when classification is based on arbitrary techniques.

2. Brokers tend to keep historical parking revenue information private. Thus, diminishing the transparency and verifiability of appraisals based on historical parking data.

The advantages of DomainMart’s parked-domain methodology over a historical revenue approach are:

1. It does not require access to private income data, which a domain name owner might be reluctant to provide.

2. It does not require an active domain name. On the other hand, without historical income data, a revenue model cannot be estimated.

3. It is considerably cheaper.

The revenue-generating approach complements DomainMart’s statistical and historical profits models.

Alex Tajirian
President & CEO