



## A Review of Warner's "Branded Domains vs. Generic Domains"

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### INTRODUCTION

I confine my review to the article's<sup>1</sup> concluding section, the part dealing with valuation.

If one were to believe the claims made about revenue multiples, buyers and sellers would be clueless about value and there would be no marketplace. The article suggests that most sold domain names are undervalued, with market prices failing to incorporate the value of brand names.

However, the article's criticism of the use of revenue multiples in domain name valuations has neither empirical nor theoretical foundation. Moreover, the claim that branding is the major factor behind domain name value is unsubstantiated, and the article fails to suggest an alternative valuation model or to acknowledge widely used alternative valuation models.<sup>2</sup>

### A CLOSER LOOK

The article claims "the domain sales aftermarket places a high importance on the value of the revenue which domain traffic generates. In many cases the only valuation considered is a revenue multiple of the domain traffic revenue." It is not clear how this claim is arrived at. Our statistical

estimation results<sup>3</sup> show a wide range of brand-to-traffic (B/T) ratios, suggesting that the branding value outweighed the traffic component in a large number of domain sales. But the article fails to mention such studies, let alone address their methodology.

"Of course, [revenue multiples are] a very poor way to value domains." Why is it so? The statement criticises the methodology of estimating value, the *way*, not measurement issues related to the use of the multiple. However, the use of multiples as, say, equity valuation benchmarks — namely, the price-to-earning (P/E) ratios — varies by industry and country.

"Traffic is conceptually only the rent collected from the land, as domains represent the land of the internet." This statement, at best, uses a bad analogy of domain names with land. For, say, commercially zoned land, the expected rent is the most important determinant of the revenue side of value.<sup>4</sup> If two identical adjacent pieces of land are to be developed into, respectively, Trump Plaza and 101 Bay View, the value of the former may well be higher because of the Trump brand effect. As a result, any future buyer who is able to retain the brand name will pay a multiple of the premium rent. Hence,

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<sup>1</sup> Warner's article is available online at <http://www.dnjournal.com/articles/series/warner-branded-vs-generic.htm>.

<sup>2</sup> See Alex Tajirian, "[Valuing Domain Names: Methodology](#)," DomainMart.

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<sup>3</sup> Alex Tajirian, "[Making Sense of Domain Name Appraisals: The B/T Ratio](#)," DomainMart.

<sup>4</sup> For an analogy of domain names and real estate, see Alex Tajirian, "[Domain Name and Real Estate Analogy is Slippery](#)," DomainMart.

revenue multiples can be meaningfully used for branded land, whether physical or virtual.

"When valuing real estate buyers do not just look at the road traffic near the land they are considering buying. They also look at the neighbourhood, previous use, and what the zoning is — which are all reflections of the potential future use of that land." True, but what does this have to do with the appropriateness of the use of multiples? It seems to support my earlier argument that different real estate markets have different revenue-multiple benchmarks.

"It takes an exhaustive and lateral view to understand the true value of a domain, and traffic revenue is only one of the key criteria." Recommending an exhaustive view to determine value is, at best, unnecessary. One needs to use valuation models based on systematic factors, namely, branding and traffic for commercial domain names, rather than include all the idiosyncratic factors.<sup>5</sup> An exhaustive street map for a car trip from San Francisco to New York does not add value compared to one with only the major highways. To be useful, a model also has to be elegant, beautiful in the way that mathematics, the ultimate science, is. Furthermore, when one takes an exhaustive view, wouldn't a *lateral view* be a subset?

"The greatest value attributed to a domain is not its traffic revenue; a domain's greatest value attribute is its *brand* value." Based on the B/T ratio, this is an inaccurate statement. It is true that, other things being equal, a domain name representing a brand name will be more valuable. But, from an investor's perspective, the return on investment is more important. Moreover, one can argue that using a well-recognized name does less for brand value than creating a strong brand

name does. Furthermore, for the branded company to establish revenue growth it has to generate growth that is unexpected; otherwise its value will, at best, stay constant.

"Respectively the problem with the sales value of branded domains is that they generally have very confusing or poor attributable brand value." It is not clear what is being referred to as a *problem*. The sentence appears to say that branded domain names are undervalued,<sup>6</sup> and/or that the estimation error of brand value is higher than that of traffic. It is possible, however, that this is an empirical question and needs to be validated.

## CONCLUDING REMARKS

Relax! A large portion of domain names sold are generic traffic names for which appropriate multiples reflecting domain name risk can be used to obtain a reasonable measure of value. Moreover, if the brand name in a domain name is well established, the revenue generated by the associated business will manifest itself in revenue. Thus, revenue multiples are also a reliable measure for such domain names.

The problematic valuation issue is associated with a domain name's brandability potential, which is a million dollar question. This is where advertising and naming agencies use serious science and art to come up with names that have high brandability potential. Hence, one should not expect a \$20-40 appraisal or the use of any multiple to determine their value.■

<sup>5</sup> See Alex Tajirian, "[Market Price and Value Can Diverge.](#)"

<sup>6</sup> For some studies of inefficiencies in the domain marketplace, see Alex Tajirian, "[Price Inefficiencies in Domain Name Markets: An Empirical Investigation](#)" and "[Domain Names Are Cheap!](#)"