Setting Reserve Prices for Domain Name Auctions

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Let's look at a simple example to illustrate what a reserve price should be in relation to a domain name's value, with attention to how that relationship is determined.

Example

	Domain Name 1	Domain Name 2
Fair Market Value (FMV)	$100	$100
FMV Error Margin	±10%	±20%
FMV Variability Range	$90–$110	$80–$120

In the above example, you have two domain names valued at $100 each. Should they have the same reserve price? How much should their reserve prices be?

The reserve price depends on the estimated value and respective estimation margin of error; let's say 10% and 20% respectively. First, let's look at the error margins. What do they mean? Basically, that if you measured a given name a thousand times in the same way, using the same measuring device, 95% of the results would be in a given range. For the first domain name, that range would be from $90 to $110; for the second one, $80–$120. These ranges reflect values of the domain name that are statistically indistinguishable. (The technical term is the confidence interval.)

So what happens if someone offers you $80 for each of the domain names? If you want fair market value or higher, say no to the first offer and yes to the second. Minimum reserve prices for the names should be $90 and $80 respectively.

If you are planning to list the domain name only once and accept a FMV, then you should set the reserve prices at the minimum price of the range. On the other hand, if you are willing and able to wait for multiple consecutive auctions, you may decide to set the reserve for the first auction at a higher level and then lower the reserve at each subsequent auction. This is similar to a tactic sometimes used in the real estate market. However, the tactic comes at a cost, namely that bidders expect you to eventually go below the minimum reserve. Thus, a willing buyer at these prices may decide to wait. The other danger is that you might lose interested parties who decide to acquire a similar name. Moreover, there is a cost in waiting, and possibly there will be listing fees.

Thus, first find an appraisal service that provides the domain name's market value accompanied by a statistical range. Second, wait for an appropriate well-attended auction to list your domain names for the minimum FMV. ■