DomainMart

To Renew or Not to Renew Your Domain Name?

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Abstract
The essay outlines techniques for evaluating whether to renew a domain name. I will point to some cost advantages over domain name valuation and to some of the difficulties with automating the process, difficulties that increase when certain characteristics are present in large portfolios.

Introduction

You should renew your domain name when its market value is greater than the value of its registration costs. Market value is estimated based on revenue expected over the domain name's life (income approach) or else on the selling prices of similar domain names (market approach). In practice, the availability of data decides which method is used.

The market approach for renewal decisions is, unfortunately, not feasible for low-end domains because there are very few sales of less than $75 are listed in the public records; thus, you cannot arrive at a reliable estimate of the average sale prices of comparables. To overcome this limitation, you can use the income approach by breaking down market value into two components: the value of revenue expected next year (the minimum allowable registration period) and the value at the end of one year. However, future revenues are unobservable and must be estimated. Obviously, if the value of expected revenue during the first year is greater than its renewal cost, you are home. Renew!

To estimate the value of revenue over the first year, you need to forecast revenue for the period. In general, this process can be automated so that a large number of domain names can be assessed without huge outlays of money. Estimating the value of revenue beyond the first year is problematic, but fortunately you can just switch to a revenue-based market approach—in most cases. Unfortunately, certain classes of domain names present problems and may require a manual process. Those problems are discussed below.

Problems with implementing an automated solution

Below is an outline of some of the potential barriers to a fully automated system. Added difficulty arises when you must analyze a large portfolio for domain names.

1. Each domain name needs to be analyzed individually. Unlike in the market valuation of a large portfolio, you cannot simplify the task by only valuing a subset of the portfolio to arrive at the portfolio's total value.

2. Potential trademark violations need to be considered: whether to surrender the name to the claimant, renew it, sell it to the claimant, or let it expire.

3. Parking revenue data depends on the monetizer. Thus, assumptions need to be made on the relative revenues across monetizers.

4. Availability of parking data:
    a. When historical revenue data is available, you can run time-series statistical models using historical parking revenue. Time-series forecasting is preferred over using average revenue growth rates because time-series modeling captures non-linearity in data and can incorporate seasonality. Moreover, in general, time-series models have better predictive accuracy than models based on a predetermined set of explanatory variables. But estimation should be conducted during the last month before expiration because the accuracy of a forecast decreases as the forecast period is further in the future.

    b. As you have guessed correctly, there is an additional problem when a domain name is not parked or is not generating sufficient income to cover its first-year registration cost. One option is to base the estimate for your domain name on the revenue being forecast for a group of similar domain names.

5. When using the market approach, there are exceptions that require human assessments:
    a. Foreign language words. To determine if a domain name is in English or another language, it must first be correctly parsed into keywords with the help, if necessary, of multilanguage dictionaries. However, automated parsing of domain names is not always reliable, so manual supervision can become necessary.

    b. Made-up words. Such domain names cannot be parsed, so they must be manually confirmed as not being foreign words or typos. The names, which are more suitable for branding than monetization, are also likely to have low parking revenue with potentially high market value that is hard to estimate. One approach is to base pricing of such a domain name’s future revenue on that of comparable revenue-generating domain names, so that you end up with a decent average for accuracy. Thus, a manual decision is required with considerable uncertainty in the value estimate.

    c. ccTLDs. If no parking data is available, one can use revenue hierarchy estimates, similar to pricing hierarchy analysis. The expected growth rate in ccTLD registrations can be used to adjust the hierarchy ranking. Thus, a manual decision is required with considerable uncertainty in the value estimate.

   d. Typo domain names: Spell check software might not correctly identify the corresponding non-typo keywords. Consequently, human intervention is needed.

Decision Criteria

There are three plausible investment scenarios that influence the renewal decision:

1. When there is no budgetary limit, renew all domain names with net value (value of revenues less value of all registration costs) that is equal to or greater than zero.

2. When there is a budgetary limit, rank the domain names in a descending order based on net value, then go down the list and renew all the domain names whose cumulative value does not exceed your budget.

3. When there is a budgetary limit and you are considering alternative investments, rank all the investment options in a descending order based on net value, then renew all the domain names whose highest cumulative value does not exceed your budget.

Concluding Remarks

The renewal decision is not a pure domain-name valuation problem; it requires forecasting and valuing revenue over the desired registration period, which is typically one year.

1. For domain names that generate considerable parking revenue, the renewal decision is relatively easy to implement at a small fraction of the cost of individual appraisals.

2. The above condition fails when historical data is unavailable, such as when the words are not parked, or when they are made up or foreign or do not belong to one of the major ccTLDs. The difficulty arises because most of their potential value is driven by income from their future sale, which is not easy to estimate. Nevertheless, the decision to renew depends on your budget, other available investment opportunities, and your risk tolerance. Moreover, there is considerable uncertainty associated with their estimated value. ■