New gTLD Applicants Must Reduce Cognitive Biases

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To improve the viability of your application for the recently approved launch of new generic top-level domains (gTLDs), you must reduce decision biases in estimating a new gTLD's expected revenues. To do so, you must either delegate the responsibility to an independent multi-disciplinary team within your company, or seek input from a consultant.

Cognitive researchers have identified two modes of thinking: intuitive and reflective. The first is referred to as System One, while the second is referred to as System Two. System One is a mode of thinking that gives us a stable representation of the world around us, which allows us to perform certain actions without much thought. An example of this would be walking and contemplating something else at the same time. System Two, on the other hand, is a mode of thinking that is reflective and analytical. Professors Thaler and Sunstein popularized this distinction in their book "Nudge".

Cognitive biases arise due to System One thinking. The essay deals with reducing such biases by looking at the decision process through a Systems Two lens. Experts need System Two thinking to complement their intuitive thinking, as they are unable to fix errors that they do not recognize. The essay does not deal with errors in strategic and marketing analyses. (I have outlined such biases when appraising domain names.)

You are obviously better off with reduced bias than with irrational exuberance when it comes to your profit forecast. After all, the total cost of an application can easily top $400,000. You will not want to throw away that kind of money.

You must work to assist the group in charge of estimating profits to reduce cognitive biases. You and/or your consultant must play the delicate role of not being seen as a quality control boss. You do not want to appear to question a witness's expertise or integrity. Instead, this complementary role you and/or your consultant will undertake is intended to stimulate discussion and debate.

Eliminating biases becomes an especially curtailed process when you do not rely on prediction markets to estimate demand for your proposed gTLDs. Nevertheless, even when using prediction markets you can reduce operating cost estimation biases that are estimated more accurately using internal methods.

Below are some questions that your System Two team needs to ask the team estimating your new gTLD profits:

1. Have you rejected the potential value of new gTLDs based on the performance of existing TLDs? Such an outright rejection might be based on comparing apples and oranges, i.e., using the wrong analogy and cognitive biases by not focusing on niche vs. scale gTLD markets.

2. Have you fallen in love with the idea of jumping on the new gTLDs bandwagon? (This bias is called *reference class forecasting*. See, for example, "Delusions of Successes: How Optimism Undermines Executives' Decisions," by Dan Lovallo and Daniel Kahneman, *Harvard Business Review* July 2003.)

3. Are your analyses taking into account the cost and scope advantages of incumbent registries?

4. As an incumbent registry, are you unconsciously motivated to "build an empire" in the gTLD space? Or does your unbiased analysis suggest value creation?

5. Were there any dissenting opinions within the profit estimating team? What was the team's motivation to converge on the presented recommendation? These questions are intended to reduce the possibility of the group thinking and/or converging on a position simply because it was gaining momentum.

6. Are the demand numbers of domain name registration under your proposed gTLD very optimistic/pessimistic? Or are they based on prediction markets? Pessimism can arise, for example, when you incorrectly rely on data from current TLDs.

7. Is the worst-case scenario overly optimistic? Conversely, to assess whether the recommending team is overly cautious, ask yourself if your company tolerates unpredictable failures or if such failures result in unjustifiably firing the deciding team? ■