



A Review of Dan Warner's "Aftermarket Domain Valuation Factors"*

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INTRODUCTION

This essay provides domainers with an alternative to the views on domain name valuation factors recently presented at conferences and published in an article¹ by one of the industry's prominent figures.²

Dan Warner's article is rife with unabated nonsense, lack of analytics, and indifference toward publicly available related studies. Furthermore, the highly visible industry site that published it refuses to present alternative views. It is not clear to me or to many others whether this *modus operandi* is due to incompetence or Domainospinning. Nevertheless, this pervasive attitude has hijacked analytical discourse, causing damage to the domain name ecosystem. To save the ecosystem, analytically minded industry practitioners and researchers must find other venues to promote useful and unbiased information. A sick ecosystem undermines all members' interests.

CRITICAL EXAMINATION

Below, I analyze the article sequentially and point out the weaknesses in its arguments. I will confine my comments to the factors and not the issues related to the marketplace.

(A) First Paragraph

- (1) The analysis is limited to valuation of retail domain names and does not consider purchases for investment or personal use.
- (2) Only factors from the perspective of buyers are considered; factors influencing the sellers' decisions are ignored. However, if buyers use factors other than the ones described in the article, there can be no convergence in value, as each side of a transaction would be speaking a different language. No efficient market can exist without both sides speaking the same language.
- (3) The motivating factors behind a purchase are described as "unique." However, if one deleted the word *domains*, the factors could be seen to apply to the purchase

* Warning! The Surgeon General has determined that DNJournal, the site that published Dan Warner's article, does not allow comments on articles. Moreover, Domainer's Magazine did not respond to a proposal to publish the critique and a rebuttal from Dan Warner, with the possibility of a rejoinder. Thus, reading this article may be hazardous to your health.

¹ Dan Warner, "Aftermarket Domain Valuation Factors," DNJournal, available at <http://www.dnjournal.com/articles/aftermarket/warner-valuation-factors.htm>.

² Dan Warner is the COO of Fabulous.com.

of any retail name and to have done so for centuries. There is nothing *unique* about them for domain name analysis.

The statement that "a domain's true value can only be attributed to a specific buyer" ignores the commonly used definition of *true value* as referring to an asset's intrinsic value, not a buyer's willingness to pay. Moreover, eliminating the word *true* would make the statement correct for any product or service, demonstrating that it is not, as the article suggests, unique to domain names.

- (4) The article claims to put forth a "framework." However, frameworks and models have a purpose, namely, to put a structure on a complex real-world problem with the aim of aiding normative decision-making. In this article, the factors are intuitively relevant and lacking in any structure. As a result, the proposed framework is not analytically useful and cannot be empirically tested or validated.
- (5) The factors are claimed to be those that buyers "commonly attach to each domain purchase." However, it is not clear how the article reaches the conclusion that *each* domain name buyer analyzes these factors. Is the conclusion based on a scientific survey, proprietary data, or anecdotal evidence? To be credible, a theoretical model must back such a strong assertion. We are beyond a sampling issue when the claim is generalized to include *each* purchase.

(B) Graphic Representation

The graphic representation of the factors gives the wrong impression that the centerpiece factor is realization and that these factors are all disjoint. However, none of these impressions are necessarily correct, theoretically or empirically.

(C) Brandability

A brand is described as the "emotional value that a buyer attributes to a domain name." Without getting into the definitions of branding, does that mean that Volvo's brand name has only an emotional link to safety, not one based on factual support?

The article's litmus test for brandability is the "radio test,"³ and it gives the example of Fantastic.com as brandable. But wouldn't, say, FantasticBoats.com be more memorable, and thus more brandable, than Fantastic.com? Hence, wouldn't FantasticBoats.com command a higher price than Fantastic.com?

(D) Mindshare

This factor measures familiarity of a domain name. But, by definition, aren't well-known brand names familiar? Thus, aren't brandability and mindshare related? Well, one can distinguish between whether a domain name has brandability potential and whether it's a recognized brand name. However, no such distinction is made in the article's analysis or in the examples.

³ "If you were to hear a domain being talked about on the radio—how likely would it be for a consumer to remember that domain and spell it correctly?"

The article goes on to suggest that the "easiest" way to measure these factors is "by comparing search data on domain phrases." It might be the easiest method, but it's not necessarily the best. After all, high search volume might be a result of newness of the keyword, or of a buzz prompting a large number of searches. The resulting volume surge might only be in a short-term blip without any payoff in long-term mindshare. Furthermore, a high search rate does not necessarily imply widespread familiarity. Instead of a large number of people performing the search, a handful might be doing multiple searches.

(E) Commerciality

The article states, "A good measure of commercial value is the bid price that advertisers are willing to pay for a phrase (domain phrase) in pay per click search advertising." Not necessarily true. One needs to look at the expected revenue, which means looking at price and click volume. Moreover, the price is not a "relative" measure of willingness to pay — it is absolute. Furthermore, the article gives CriminalLawyer.com and BusinessSoftware.com as examples of commerciality, while it states that GarageDoor.com and BonzaiTree.com are examples of mindshare. It is not clear what the discriminating criteria are, or whether it is possible to find explanatory variables to statistically classify domain names under these factors.

(F) Specificity

Why does UsedBikes.com belong to the specificity factor, while GarageDoor.com is an example of commerciality? Why isn't SeattleSailBoatRental.com more specific than SeattleSailing.com when "a buyer needed a domain for a sailboat rental company in Seattle"? Thus, wouldn't specificity then imply that SeattleSailBoatRental.com is more valuable than SeattleSailing.com?

(G) Realization

- (1) "The value a buyer can realize through the use of a domain name directly correlates to the price they paid compared to the benefits achieved." There is absolutely no causality, and thus any correlation is spurious. Conversely, assuming that the purchase price is lower than the value of benefits does not necessarily imply that the business will generate any positive net income from the use of the domain name.
- (2) Why would ConstructionSupplies.com be "inappropriate for a local business"? The local owner may, for example, build a portal for nationwide local construction supply stores, while retaining control of information for his/her local store.
- (3) The article incorrectly states, "Domain value is a direct reflection of what value can be extracted from each domain by the intended buyer." The value should reflect the domain's best use, not the value generated to the buyer. Realized value by the buyer does not necessarily reflect the value of the domain name.

(H) Immediacy

- (1) The article states: "Most retail buyers have a specific purpose in mind that they are trying to fulfill and are frequently under short time constraints. Common reasons include: having new business cards printed, building a new website, having a new product to promote, or meeting a strategic objective."
 - (a) What is the support for "most"?
 - (b) What is the support for being "under short time constraints"?
 - (c) Why would a \$50 cost for business cards result in immediacy?
 - (d) Unless the time to construct a functional website, to develop and launch a new product, or to develop a strategy is extremely short, why would these activities result in immediacy? These arguments suggest bad planning by most domain name owners, a highly unlikely scenario.

- (2) "These buyers usually do not have the knowledge or experience to 'shop around' for the right domain name." The poor buyers. They can come up with viable new products, they can strategize, but somehow they can't make competent consumer decisions or get on the phone to a consultant.

- (3) "These buyers usually will only purchase an aftermarket domain if they can find one that aligns with their perceived value in price and purpose within a short period of time. Otherwise they commonly buy a 'new registration' domain of less apparent value." This implies that most buyers don't realize that the acquisition of a single domain name involves mutually exclusive decisions, and that the buyer therefore needs to estimate the return from each alternative purchase, then choose the highest. In short, such statements imply that *most* domain name buyers are ignorant of basic investment decision-making principals!

- (4) Premiums/discounts associated with immediacy are not unique to domain names. A seller that can ascertain the immediacy need of the buyer will insist on a premium. However, such immediacy would be applicable in the domain name market only if one believed the article's claim that most buyers require immediacy.

(I) Intent

It is not clear why buyer intent should be a separate factor instead of being at the top of the pyramid of factors, with branding and traffic values lying below it. Moreover, the paragraph also wanders into issues that are related to alleged shortcomings of the domain name marketplace, not to buyer intent.

RELATED ARTICLES

1. Alex Tajirian, "[A Review of Dan Warner's 'Traffic Targeting and Wastage,'](#)" DomainMart.
2. Alex Tajirian, "[Madison Avenue & Domain Names,](#)" DomainMart.
3. Alex Tajirian, "[Making Sense of Domain Name Appraisals: The B/T Ratio,](#)" DomainMart.