



Entrepreneurial potential in new Top-Level Domains: RESEARCH SUMMARY

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INTRODUCTION



Dr. David Neal, Founding Partner at Empirica Research

Dr. David Neal, Founding Partner at Empirica Research, was commissioned by ARI Registry Services to conduct a comprehensive analysis of the commercial potential in the new Top-Level Domain program. First, Empirica examined the current state of the Internet and business landscape surrounding new Top-Level Domains by reviewing existing research reports and conducting interviews with entrepreneurs and Internet experts. Second, a survey was conducted with 200 small and medium sized (SME) business owners across a range of industries to investigate whether there is a viable second-level market to purchase domains under a new Top-Level Domain – will restaurant owners actually buy a domain within .restaurant, will lawyers buy one within .law? Last, Empirica used the research findings to produce an example business model that demonstrates how a new Top-Level Domain could provide a return on investment.

This document is a summary of a much larger research report which contains more information and additional data. To obtain a free copy of the full research report, please contact ARI Registry Services.

KEY FINDINGS

- Less than 15% of SME owners know about the new Top-Level Domain (TLD) program
- However, when educated about the program, 49% of SMEs describe themselves as at least moderately likely to register a domain within a new TLD related to their business.
- On average, SMEs said they were willing to pay a 47% premium for a domain name within an industry-specific new Top-Level Domain.
- 44% of SMEs said they would have bought a domain within a new Top-Level Domain had the opportunity existed when they were starting their business.
- SMEs perceived the most significant value in industry-specific web addresses to be the possible advantage within search engines, the ability to better match a domain name to their business and the potential to increase purchases from international consumers.
- For SMEs who have customers who do not speak English, the research found 54% said they were interested in owning an Internationalised Domain Name (IDN). A Chinese IDN was nominated by 90% of SMEs.
- An example business model examining the .shop new Top-Level Domain demonstrates potential annual revenue in the order of USD \$7 million from the Australian, Singaporean and Hong Kong markets. Global revenue would be significantly higher.
- Despite a weak global economy, Internet-specific businesses have continued to expand rapidly in recent years and future growth will be fuelled by the addition of 1.5 billion consumers before 2020, primarily from emerging economies and by an expansion in the number and value of online services in advanced economies.
- Venture capital investment, while weak in the global economy as a whole, has rebounded to the highest levels in a decade for Internet-specific businesses (2.3 Billion in Q2, 2011). Interviews demonstrated that investors continue to place a premium on business models that draw heavily on the Internet.

BACKGROUND ON THE NEW TOP-LEVEL DOMAIN PROGRAM

Beginning in 2012, the Internet Corporation for Assigned Names and Numbers (ICANN) will implement a fundamentally new approach to the global domain name market. This initiative, called the “new Top-Level Domain (TLD) program,” will herald the introduction of a large number of new generic Top-Level Domains into the daily navigational behaviours of businesses and consumers across the world.

“It costs less dollars now to create a business than ever before... if I have a computer programmer, I can create a business for the cost of a hosting fee...”

Ari Goldberg, CEO and Founder StyleCaster, New York

The program will allow brands, entrepreneurs and governments to apply for their own version of .com – moving from www.apple.com/iphone/ to iphone.apple for example – and secure a unique slice of Internet real estate that will dramatically change the way Internet users around the world navigate to find content online.

However, it seems awareness of this important change is low and research about the economic impact of this change has until now, been almost non-existent.

THE NEW TOP-LEVEL DOMAIN LANDSCAPE

To gain an expert insight into the motivating factors behind purchasing a new Top-Level Domain, Empirica Research conducted interviews with five high profile experts with deep expertise in Internet entrepreneurship. The interviewees were:



JAKE WINEBAUM

Los Angeles-based entrepreneur, investor and former president of Disney Online.



ARI GOLDBERG

New York-based founder and CEO of StyleCaster. Also the co-founder of Sociocast Networks. Involved in a number of other successful Internet-specific ventures.



JAIMIE FULLER

Based in Australia and Switzerland and is owner and CEO of Skins – a premium sportswear brand. Jaimie is renowned for having nurtured the boutique Skins brand, via an aggressive distribution and ecommerce strategy.



THE HON. NEIL BROWN QC

Australian-based international arbitrator and mediator specialising in domain name law. He is the former Australian Federal Minister for Communications and Acting Attorney-General.



TONY CHOW

Singapore-based expert in digital media and creative entrepreneurship. Founder of Hive Media and president of the Singapore Independent Producers' Association.

CONT': THE NEW TOP-LEVEL DOMAIN LANDSCAPE

The interviews demonstrated that investors continue to place a premium on business models that draw heavily on the Internet, and IT infrastructure costs have declined substantially, lowering barriers to entry for new Top-Level Domains. Generally, the interviewees expressed positive views on the current business climate with respect to launching new Internet-specific businesses.

Economic data support the interviewees' optimism. Venture capital investment, while weak in the global economy as a whole, has rebounded to the highest levels in a decade for Internet-specific businesses.

According to PricewaterhouseCoopers' venture capital tracking, investment in Internet-specific companies surged in Q2 of 2011 with \$2.3 billion invested into 275 companies. This represents a 72 percent increase in dollars and a 46 percent increase in the number of deals from Q1 2011. The Q2 2011 figures represent the most dollars going into Internet-specific companies since the second quarter of 2001.

A review of the domain name industry showed .com addresses, while still dominant, now make up less than 50% of all domain names. Expansion into the other TLDs (e.g., .net, .info, .biz) has been substantial, motivated partly by defensive registrations and partly by the scarcity of desirable .com addresses, and the high cost

of purchasing desirable .com addresses in secondary markets (i.e., at auction). Given the finite possibilities in the .com space, the commercial pressures to move into new TLDs is likely to grow stronger over time.

Also, trends in consumers' online behaviour reveal they are increasingly searching for goods and services online, and are doing so by using search engines to scan content within industry categories. If new TLDs can become established as memorable "signposts" for particular industries (e.g. .shop as a signpost for retail content), then they may come to play a strong role in consumers' online search strategies.

"When the GFC hit there was talk of cheque books being put away and there is little doubt that this happened. However, it was only for a limited time... there is increasingly more money out there to be invested."

Jaimie Fuller, CEO Skins, Australia & Switzerland

"to get a [.com] domain name that is memorable, you would now have to buy one at auction...but they are not hugely expensive, relative to the capital investment you're going to need to make the company successful."

Jake Winebaum, Entrepreneur Former President, Disney Online Los Angeles

SMEs and new Top-Level Domains

One critically important source of data has been absent from prior analyses of the new Top-Level Domain initiative. Will small and medium sized (SME) business owners actually buy a second-level domain within a new TLD related to their business?

To address these questions, Empirica Research conducted a survey of 200 SME owners and CEOs from Australia, Singapore, and Hong Kong. The survey was conducted in September 2011.

The survey found awareness of the new Top-Level Domain program among SMEs remains relatively low, with less than 15% holding accurate knowledge of the initiative. Despite this low awareness, most SMEs perceive significant value in the idea of having their business represented within a name space related to their industry. The key value of a domain name under a new Top-Level Domain is perceived as: 1) Possible advantage within search engines; 2) Ability to deliver domain names that are better matched to the SME's business; and 3) Ability to deliver increased purchases from international consumers.

The survey found 49% of SMEs report being moderately, very, or extremely likely to register a domain within a new TLD related to their business. This figure is likely to be higher among newly forming businesses that are yet to invest in a domain name. The survey findings indicated that registrations are likely to be higher among sole traders and small businesses (1-19 employees), than among medium sized businesses (20-200 employees).

Suggesting that adoption will be higher in newly forming businesses, 44% of SMEs said they "probably" or "definitely" would have bought one, had the opportunity existed when they were starting their business.

Importantly, the survey also found that SMEs are willing to pay substantial premiums to own a domain within an industry-specific new Top-Level Domain. This premium ranged from 39% to 58% and averaged 47% over what they currently pay for their annual domain name renewal.

Considering the growth opportunities available in developing markets, Empirica Research investigated the demand for Internationalised Domain Names (IDN) which will allow SMEs to register domains in non-Latin based languages such as Arabic, Chinese, Japanese etc. For SMEs who have customers who do not speak English, the survey found 54% said they were "moderately", "very", or "extremely" interested in owning an IDN. A Chinese IDN was nominated by 90% of SMEs, with the remainder nominating Japanese (6%), Korean (2%) and Arabic (2%).

“Trademark owners can do a lot to protect their brands by applying for new TLDs themselves and hence getting the benefits of the new system and also making a defensive strike...”
The Hon. Neil Brown, QC, Domain Name Arbitrator

The .shop business model

By combining the data collected during this research project with official census data, it is possible to develop business models/case studies that estimate demand and revenue associated with specific new Top-Level Domains. To estimate annual revenue, we multiply the likely adoption rate by the average price SME owners in our survey indicated they would pay for a second-level domain within a new Top-Level Domain.

Below is an outline of a business model for a .shop new Top-Level Domain:

AUSTRALIA

1. Data from the Australian Bureau of Statistics shows there are 219,000 retail stores in Australia. The SME survey indicates that 20% of Australian retail stores are either “very” or “extremely” likely to register a second level domain within a .shop new Top-Level Domain. This yields a potential customer base of 43,800 retail stores.
2. The SME survey revealed that Australian retail store owners are willing to pay \$126.5 AUD per annum to own a second-level domain within a .shop name space.
3. Point 1 and 2 yields an annual revenue of \$5.54 million AUD for a .shop new Top-Level Domain generated from Australian retail stores alone.

SINGAPORE

1. Data from the Singapore Department of Statistics shows there are 19,150 retail stores in Singapore. The SME survey indicates that 15% of Singaporean retail stores are either “very” or “extremely” likely to register a second level domain within a .shop new Top-Level Domain. This yields a potential customer base of 2,873 retail stores.
2. The SME survey reveals that Singaporean retail store owners are willing to pay \$108 SGD per annum to own a second-level domain within a .shop name space.
3. Point 1 and 2 yields an annual revenue of \$310,000 SGD for a .shop new Top-Level Domain generated from Singaporean retail stores alone.

HONG KONG

1. Hong Kong Census data show there are 61,713 retail stores in Hong Kong. The SME survey indicates that 14% of Hong Kong retail stores are either “very” or “extremely” likely to register a second level domain within a .shop new Top-Level Domain. This yields a potential customer base of 8,639 retail stores.
2. The SME survey reveals that Hong Kong retail store owners are willing to pay \$1666 HKD per annum to own a second level domain within a .shop name space.
3. Point 1 and 2 yields an annual revenue of 14.39 million HKD for a .shop new Top-Level Domain generated from Hong Kong retail stores alone.

The .shop business model demonstrates the substantial revenue potential associated with a new Top-Level Domain. From Australia, Singapore, and Hong Kong alone, the model estimates potential annual revenue in the order of USD \$7 million. This is likely to be only a fraction of the actual revenue considering a .shop name space will have global appeal, and the analysis above estimates revenue only from three countries. The estimates also do not include the sale of highly sought after names like handbag.shop or paris.shop which could be auctioned for substantial premiums.

Conclusion

Overall, the research demonstrates strong potential to monetise second-level domains within new Top-Level Domains.

The interviews with entrepreneurs and Internet experts, plus the analysis of existing research, shows that new Top-Level Domains are being launched into what can generally be described as a highly favourable economic, technological, and consumer landscape.

The survey findings demonstrate that SMEs currently have low awareness of the new Top-Level Domain initiative (15% awareness). However, they are quick to recognise substantial value in the concept after being provided with only a brief, neutral overview. Compared to typical new technology launches, a very high proportion of SMEs express moderate or stronger interest in adopting one of these new domain names (49%). Moreover, they are willing to pay substantial premiums (average premium: 47% above current domain), fuelled by a perception that these domains will have an advantage in search engine rankings, will allow them to acquire a more business-relevant domain name, and will yield advantages in selling to consumers in other countries. Collectively, these findings demonstrate that there is high potential in monetising second-level domains within new Top-Level Domains.

Request the full report

This document is a summary of a much larger research report which contains more information and additional data. To obtain a free copy of the full research report, please contact:



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