



# How to Value Domain Names

A nerd's Guide to the Business of Domain Names

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Domain name speculation is a game/business that started the 1990's, where less than savvy investors got hosed and bought up domains for huge sums of money ... sometimes in the millions.

Like any speculative bubble, once the public smells easy money, whole industries are created and the game goes on until there aren't any suckers left. See housing and the .com bubble days for examples.

## Domain Name Speculators

There is now a class of web entrepreneur - people who buy domains and then they try to flip them for huge profit. People who buy to flip, are speculators. Speculator is a nice name for gambler.

Beware: the game of domain name flipping is pretty much the same as the game of house flipping ... once people figure out that much of the perceived value is just a bunch of crap, the fake value crashes.

## Valuing Domains

To help justify jacking domain name prices, the flippers came up with a bunch of criteria to set the value of domains, for example:

- shorter is better
- keywords in the domain name is better
- .com is better than .net or .ca
- certain keywords are more valuable than others.

My experience has taught me that the above criteria CAN add some value to a domain but in the end, their effect on the cash generating capabilities of a website will be tiny.

... Yes, any business owner knows that the true value of a business comes down to what it can earn in profit.

## The Web's Evolving Nature Reduces the Value of Domains

In a nutshell:

With the ever expanding list of extensions being unleashed on the Web, the value of domain names are being diminished. Think about it, when there was only .com, .net

and .org, domain names were arguably more valuable since we only had three extensions, but now with .biz, .tv, .name etc .... there is simply more choice.

What is really killing the value of domain names though, is found in the Web surfer's behavior:

1. People tend to click to get to web sites - they rarely type them in.
2. People find new sites mostly via the search engines.
3. People are more sophisticated about the Web and so the higher value found in .com's is dropping fast. People are used to typing in just about any domain name extension these days.

## **Conclusion**

From an email I wrote recently:

"Domain names have less intrinsic value today than they did just say 5 years ago since the powers that be are expanding the number of available domains by a lot and because the web surfing public is getting more sophisticated - they know there are more than just .com's out there. Although, short and to the point .com's are always slightly better.

No, the true value of a domain is in the traffic that the domain name gets. So don't pay more than a few hundred (if that much) for some domain that has never really had much of a public life."

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