SnapNames™
Secure Your Domain™

DOMAIN NAME WAIT LISTING SERVICE – RETAIL PRICING ANALYSIS
January 11, 2002

I. Scope

This document was prepared in response to several requests from ICANN constituents to share market research information which VGRS and SnapNames used in determining the optimum retail and wholesale pricing ranges for the 'WLS' product. The information presented here incorporates empirical data from sales of the closest comparable product on the market – SnapBack™ – as well as supporting data from third party sources.

II. Historical Data

Historical data on the SnapBack service strongly suggest that during all periods, domain name consumers have considered SnapNames' retail prices to represent excellent value for money. The following table details SnapNames' historical pricing. Note that during the period from the SnapBack service's inception, on December 22, 2000, through July 26, 2001, the retail price was $35 for a *three*-year subscription. Following that date, the retail price was $49 for a one-year subscription. For purposes of comparison, the table also shows equivalent one-year retail prices (this is also useful for GAAP revenue recognition comparison purposes).

Figure 1: SnapNames Historical Pricing

Period	Subscription Duration	Retail Price	1 Year Equivalent Price (GAAP View)
12/22/00 - 7/26/01	3 years	$ 35	$ 11.67
7/26/01 – 1/15/02	1 year	$ 49	$ 49
	Difference:	$ 14	$ 37.33
	Percent Change:	+40 %	+320 %

Significantly, the 40% price increase which took effect on July 26, 2001 had no negative impact on SnapNames volume. Indeed, during the 45 days following the price increase, average daily subscription volumes increased by 16.5%, compared with the 45 days before the increase, resulting in a 47% increase in top-line revenue. This evidence supports an inference that customers continue to consider current pricing to represent an attractive deal. In fact, they may even associate price with quality.

Recent comments from customers and industry participants suggest that SnapNames' current prices are significantly lower than what would be necessary to distribute SnapBack optimally – in other words, reducing the discrepancy between what someone pays for a SnapBack subscription and the value of that name. (For mainstream clients this means the value of the name for business purposes; for speculator clients this references the potential arbitrage delta).

The common refrain from the speculator community (not the mainstream) that "all the good SnapBack positions are already taken" therefore points directly to the phenomenon of *under*-pricing. That is, if retail prices reflected the actual value of the SnapBack service to purchasers, this problem would diminish. A corollary to this is that artificially low prices create greater opportunity for speculative SnapBack purchases. This effect is limited to speculative purchases of high-value names; some speculators' business models focus on low-value names, which are more likely to delete in the normal fashion and be obtainable using existing conventional methods.

III. Preliminary Indications That the Market Accepts a $69 Retail Price for a 70% Efficacy Product

In light of the supply-demand discontinuity between current and optimal pricing for the SnapBack service – as exemplified by the "all the good ones are taken" issue, SnapNames announced that it would be raising retail prices to $69, an increase of $20 (41%), effective January 15, 2002. The public announcement was made to the 74,000 SnapNames active account holders in an email message on January 8, 2002.

Since the announcement of the upcoming price increase, SnapNames has experienced a substantial (>80%) jump in the average number of SnapBack subscriptions purchased each day. Such a jump in SnapNames order activity supports an inference that consumers consider $49 to be a bargain. That is, if $49 were not a sub-optimal price, and $69 not a more appropriate price, then there would be no particular reason for potential purchasers to suddenly purchase SnapBacks that did not interest them before. While a number of factors may affect daily volumes, a sudden 80% volume jump strongly suggests that many customers are using the lead-up to the January 15 price increase to "stock up" on under-priced SnapBack subscriptions while they are still available. The flexibility of "exchanging" SnapBack subscriptions to different target names minimizes the customer's risk of such advanced stocking.

Anecdotal evidence from the professional domain name investor community also suggests that a $69 retail price is very attractive even to this class of high-volume SnapBack customers. This is what one such client had to say in support of the proposed WLS retail pricing:

"It will drive up the cost of good to medium-to-good domain names, and it will provide some certainty of costs, meaning you'll have a first position [but] I think it will make it a little more level for the average person."

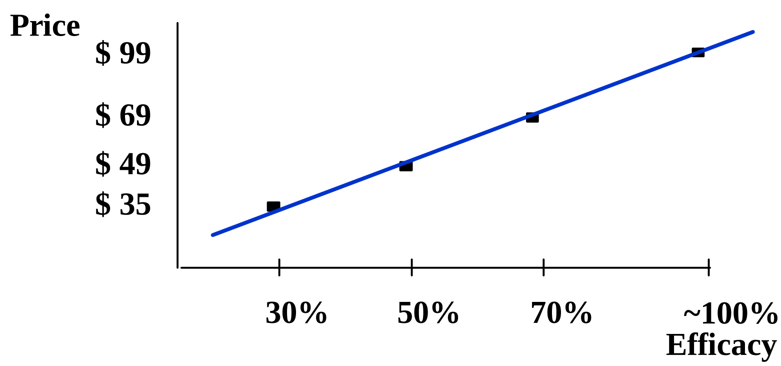
\- Frank Schilling, prominent domain name investor (appearing on TechTV Jan 8th, 2002)

The near-total absence of customer push-back also confirms that $69 is an appropriate retail price for the current SnapBack product. Out of the more than 800 emails and telephone calls fielded by our customer service representatives during this week, fewer than one dozen (<1.5%) even mentioned the upcoming price increase. And only *one* of those callers actually *objected* to it. As the customer notification clearly stated, the price adjustment reflected an increase from a prior 50% efficacy rate in the mid-summer timeframe to a 70% efficacy rate which has been consistently maintained over the past few months as a result of the increased registrar participation in TurboSnapper™ Array Network. Another factor we believe may be involved in the price perception of high-volume clients is that SnapNames receives extremely high marks for customer service, and this adds to the perceived value of the overall product. (This factor may not necessarily carry over to the WLS product, however, unless the registrars selling the WLS offer comparable levels of customer service.)

IV. Retail Prices Correlate Closely With Efficacy

SnapBack efficacy is a measure of the average number of successful expiring domain name acquisitions divided by the average number of attempts, in a given period. SnapNames' efficacy has improved over time, from approximately 30% in early 2001, to approximately 70% today. As the following chart illustrates, SnapBack prices have mirrored efficacy improvements at an almost 1:1 ratio. When efficacy was about 30%, the retail price was $35. When efficacy rose to 50%, the retail price rose to $49. Now that efficacy approximates 70%, SnapBack will cost $69.

SnapBack Efficacy and Retail Price



We think that this information speaks for itself. Three data points spaced over a period from December 2000 through January 2002 demonstrate that each 1% increase in efficacy supports an approximately $1 increase in price. Accordingly, a SnapBack-like service, such as the proposed WLS service (which uses SnapNames' Parallel Registry™ technology to achieve virtually 100% efficacy), should support a retail price of approximately $99.

Indeed, at 100% efficacy, many consumers would pay a premium *over and above* $1 per efficacy percentage point for WLS, due to the elimination of any risk-of-failure discount. Speculator clients have suggested to us repeatedly, in some instances on the ga@dnso board, that the paperwork and accounting burden of placing bets on an ever-increasing number of secondary market sites is positively nightmarish, and that they would be happy to pay up to $100 per name in order to eliminate such burdens. In cases of large operations, the savings in employee labor alone would more than make up for the higher price-per-name, and result in profit improvements as well.

It is worth noting that high-volume clients have repeatedly offered to pay us a "premium" price if we could provide extra resources to obtain names for them at a higher efficacy rate than for other clients. This does not fit our business model of first-come, first-served (FCFS), and so we decline to conduct business in that way.

A market-priced product also serves the needs of the typical mainstream domain consumer who seeks an expiring name for actual use. The domain name cost is typically a minor fraction of a percentage point of the overall investment in on-line branding; these customers are therefore very price insensitive. Mainstream customers with any prior experience in attempting to purchase names held by speculators face a binary decision: Pay ~$69 to ~$99 for a guaranteed, next-in-line position should the name delete; or pay $500 to $1,500 to the speculator who made a fortunate investment.

V. SnapBack And WLS Compared To Alternatives

No service comparable to SnapBack, or to the proposed WLS, exists today, making the assessment of alternatives somewhat difficult. Not only are data hard to obtain, but the customer bases are very different: SnapBack is available to all consumers while alternatives such as eNom's "Club Drop" and Dotster's "NameWinner" auction bidding system generally require a level of sophistication that all but the most savvy – or professional – customers typically lack.

For example, the existence of eNom's Club Drop is not even mentioned on the eNom.com website, and the price to participate – $5,000 per month for access to eNom's connections and bandwidth – is far beyond the reach of the typical consumer interested in only one or a few names. In actuality the customer bases of these services consist 100% of speculators in competition with each other; mainstream customers are for all intents and purposes frozen out, and thus any apples-to-apples comparison is impossible.

Without knowing how many expiring names eNom Club Drop successfully acquires (the company declines to publicly share this information), it is not possible to infer a retail price per domain name. However, a $5,000 per month charge certainly creates a heavy financial barrier for anyone who would use the service, and must be considered an insurmountable obstacle for all but the professional speculator. In addition, Club Drop customers are subject to two separate levels of uncertainty: the possibility that Club Drop will not succeed in acquiring the domain name; and the possibility that, even if Club Drop acquires the domain name, it may be assigned to another Club Drop member also seeking to acquire it. Because eNom does not operate on an FCFS basis, this is equivalent to selling multiple SnapBack or WLS subscriptions on the same name – a model with which SnapNames fundamentally disagrees because it is known in advance that only *one* person can be next in line to get a name (however, in eNom's defense, they do disclose this fact in advance).

It is somewhat easier to infer a "retail price" for the NameWinner service, even though its price to consumers fluctuates depending on the eagerness of the winning bidder. NameWinner President Clint Page has told SnapNames that the *average* selling price of a domain name on the NameWinner site is $50, despite the fact that the minimum bid is $25 and that bids as high as $33,000 have been posted in the past (though few such high-value names are grabbed except by speculators/registrars who focus their entire bandwidth power on only one or a handful of names per day). We believe NameWinner's efficacy is roughly 50% based on the feedback of customers who use both services, and public comments from the company itself. *This average is in line with SnapNames' historical $1/efficacy percentage point equation outlined above.* Given the large number of transactions that both SnapNames and NameWinner have processed by now, this is much more likely to be an indication of market force than sheer coincidence.

But comparisons of the NameWinner service with SnapBack and WLS are difficult because NameWinner imposes a much greater demand on customer time and attention. Most prominent among these demands is the customer's need to monitor bids vigilantly up until the moment that bidding closes. NameWinner cannot take orders for names that have not yet passed their expiration date. Neither SnapBack nor WLS subjects the customer to the potential stress and time sink of monitoring bids and making new ones. Nevertheless, the NameWinner example supports the contention that $69 is an appropriate retail price for current 70% effective SnapBack service.

VI. Registrars Stand To Earn More from WLS than From .Biz/.Info

To answer the question of "how much money can I make, as a Registrar, selling WLS?" it is necessary to know overall market potential. The WLS proposal incorporated a projection of 5% penetration based on a base of 30 million active registrations. Removing .org names and adjusting for CNO zone file shrinkage expected to continue through March 20th, 2002, we feel a number of 26 million is more appropriately conservative. *This leads to a conservative projection of 1.3M WLS subscriptions during the one-year trial program.*

As a triangulation point, current domain name deletions volume (not including present purging of promotional names by VeriSign, Register.com, and others, which have inflated Q4 deletion statistics) is roughly one million names per month. Conservatively 25% of deleting names are repurchased within 30 days in the "secondary market," 18% usually within 48 hours of deletion. This leads to a projection of three million potential WLS subscriptions. However, because many of these names are insufficiently valuable to warrant a $69 to $99 retail price, at least half are expected to delete in the normal fashion, without a WLS subscription. *So, again, we have a supporting triangulation point of 1.5M WLS subscriptions during the one-year trial program.*

Using several further assumptions it is possible to project the top-line revenue potential of WLS sales for each active registrar. This is a very rough calculation, based upon the ICANN 2001 Fiscal Year Registrar Contributions table published on icann.org/financials. It under-represents smaller, younger registrars that may not have been in business for at least a year, and it is based on total names under management as opposed to current market shares, which would be a more ideal comparative basis, but the results are interesting nonetheless. For brevity we include the top-30 registrars only:

Rough projections of registrar sales potential of WLS
based on proportional shares to ICANN Registrars Contribution Report
(Top 30 Registrars Shown)

Assumptions:

Number of CN names in Registry Mar 20, 2002	26,000,000
% Penetration of WLS	5%
Number of WLS subscriptions	1,300,000

			WLS Rev Potential by Registrar	
Registrar	**ICANN Contr.**	**Share**	**At $69 Retail**	**At $99 Retail**
Network Solutions, Inc. Registrar	$ 269,179.28	45.469%	$ 40,786,117	$ 58,519,212
register.com, Inc.	$ 66,172.13	11.178%	$ 10,026,419	$ 14,385,732
Tucows, Inc.	$ 49,632.26	8.384%	$ 7,520,293	$ 10,789,986
BulkRegister.com, Inc.	$ 30,951.65	5.228%	$ 4,689,802	$ 6,728,847
Melbourne IT, Ltd. d/b/a INWW	$ 25,688.83	4.339%	$ 3,892,378	$ 5,584,717
CORE Internet Council of Registrars	$ 15,750.33	2.661%	$ 2,386,494	$ 3,424,100
Registrars.com	$ 14,503.63	2.450%	$ 2,197,594	$ 3,153,070
eNom, Inc.	$ 10,661.84	1.801%	$ 1,615,485	$ 2,317,870
Dotster, Inc.	$ 8,967.34	1.515%	$ 1,358,734	$ 1,949,488
iHoldings.com, Inc. d/b/a Dotregistrar.com	$ 7,850.62	1.326%	$ 1,189,528	$ 1,706,714
Schlund+Partner AG	$ 6,869.68	1.160%	$ 1,040,896	$ 1,493,459
Go Daddy Software, Inc.	$ 6,348.95	1.072%	$ 961,995	$ 1,380,253
TierraNet, Inc. d/b/a DomainDiscover	$ 5,416.97	0.915%	$ 820,781	$ 1,177,642
Joker.com	$ 5,246.82	0.886%	$ 795,000	$ 1,140,652
GANDI	$ 4,931.13	0.833%	$ 747,166	$ 1,072,021
Easyspace LTD	$ 4,802.39	0.811%	$ 727,659	$ 1,044,033
NameSecure.com	$ 4,749.76	0.802%	$ 719,685	$ 1,032,591
Domain Bank, Inc.	$ 4,433.05	0.749%	$ 671,697	$ 963,739
Intercosmos Media Group,Inc	$ 4,136.76	0.699%	$ 626,803	$ 899,326
Innerwise, Inc. d/b/a ItsYourDomain.com	$ 3,767.46	0.636%	$ 570,847	$ 819,041
Discount-Domain.com and Onamae.com	$ 3,603.57	0.609%	$ 546,014	$ 783,411
OnlineNIC, Inc.	$ 2,866.39	0.484%	$ 434,316	$ 623,149
YesNIC Co. Ltd.	$ 2,843.32	0.480%	$ 430,821	$ 618,134
Netpia.com, Inc.	$ 2,528.03	0.427%	$ 383,048	$ 549,590
DomainPeople, Inc.	$ 2,421.37	0.409%	$ 366,887	$ 526,403
Abacus America, Inc. dba Names4Ever	$ 2,264.33	0.382%	$ 343,092	$ 492,262
Gabia, Inc.	$ 2,112.45	0.357%	$ 320,079	$ 459,244
Stargate Communications, Inc.	$ 1,990.59	0.336%	$ 301,615	$ 432,752
HANGANG Systems, Inc. d/b/a doregi.com	$ 1,878.51	0.317%	$ 284,632	$ 408,386
Aitdomains.com	$ 1,869.16	0.316%	$ 283,216	$ 406,353
Xin Net Corp.	$ 1,665.15	0.281%	$ 252,304	$ 362,001
Alldomains.com Inc.	$ 1,271.29	0.215%	$ 192,626	$ 276,377
NamesDirect.Com, Inc.	$ 1,233.67	0.208%	$ 186,926	$ 268,198
GKG.NET	$ 1,165.89	0.197%	$ 176,656	$ 253,463
DodotEarth.com	$ 988.61	0.167%	$ 149,794	$ 214,922
IA Registry	$ 953.93	0.161%	$ 144,540	$ 207,383
Speednames, Inc.	$ 892.74	0.151%	$ 135,268	$ 194,080
AWRegistry	$ 836.93	0.141%	$ 126,812	$ 181,947
Signature Domains	$ 828.78	0.140%	$ 125,577	$ 180,176
EPAG Enter-Price Multimedia AG	$ 656.81	0.111%	$ 99,520	$ 142,790

The total market potential at $69 retail equates to $90 million in aggregate top-line revenue for all 96 active registrars; at $99 retail the number is $129 million.

We invite every registrar to compare the actual return-on-investment they enjoy from the .INFO and .BIZ registries, which required significant investment in engineering and marketing (not to mention ongoing legal expenses), versus the much higher contribution potential from the WLS product, which requires far less integration and marketing expense.

According to statistical analysis to be reported in the upcoming Fourth Quarter / 2001 Summary edition of the *State of the Domain* report, current new name sales of .BIZ and .INFO are about 2,000 per day, combined. WLS is projected to generate 3,560 orders per day, at a price point that is 3x to 4.5x greater than the average 1-year registration price of CNOBI names. Do the math.

VII. Average Margins in the Domain Name Industry

In response to concerns that market pressures will force registrars to charge as little as $1 or $2 above wholesale for WLS subscriptions in order to stay competitive, we offer the following evidence from the actual marketplace. Sources of data include *State of the Domain* research, individual registrars' web sites, and a November 20, 2001, research report published by Piper Jaffray which analyzed current trends in retail pricing of domain names. To summarize:

- The top-twenty registrars (ranked by names under management) command 93% market share of CNOBI.
- Among this group, 8 registrars charge $30.01 to $35.00 per name, single-quantity retail; 4 registrars charge between $15.00 and $30.00; and 8 registrars charge between $7.99 and $14.99.
- Applying weighting based on number of names under current management, within this group 82% charge in excess of $30.00 per name for single-quantity retail business. The average single-quantity retail price for the entire group is $28.00.
- For purposes of this analysis, we believe an adjustment to $22.00 for bulk pricing and lower renewal rates is appropriate.

Thus the actual average margin on CNOBI names among the top-twenty registrars (registrars with over 150,000 names under management) is 70%, taking into account the $6+ registry and ICANN contribution fees per name.

According to industry studies, most other services that registrars and resellers offer tend to generate margins of 30% to 35%.

At the proposed WLS wholesale price of $40 (adding an additional $6 for the registration of the ripened subscribed name), registrars stand to earn the customary 33% margin at a $69 retail price. At a $99 retail price, registrars stand to earn a $53 profit, or 53% gross margin. The WLS product, of course, can be branded, bundled, and priced with complete freedom by registrars, in order to cater to their customer bases. We believe that registrars that currently maintain high margins on domain name sales also will be capable of maintaining similar margins on WLS. Registrars who are more volume-oriented may elect to price the product lower in order to appeal to their price-sensitive customer bases, but we find no empirical market evidence that a price of less than $69 will produce any higher volumes.