



STATE OF THE DOMAIN

Third Quarter 2001

Editorial Update

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SnapNames, the provider of domain name back-ordering and protection services, domain name system infrastructures, and industry data, uses proprietary technology to facilitate an equal-opportunity secondary domain name market, help registrars and resellers expand profitable product inventories, and provide end-users "the best chance at a second chance"™ for a desired domain name.

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Editorial Update: State of the Domain, Third Quarter 2001

Even the editors of *State of the Domain* make the occasional error. It's a free publication and unfortunately we don't have armies of fact-checking minions to do deep-level research and verification. In the Third Quarter 2001 report released last Friday, we included inaccurate information that we'd like to correct forthrightly rather than burying a "correction" in the next issue. We've also discovered some very interesting goings-on in the domain industry.

First, the factual correction: We incorrectly reported that DotRegistrar.com, the new tenth-ranked registrar and the fastest-growing registrar in September, was a reseller of TUCOWS/OpenSRS before it obtained its own ICANN accreditation. Elliot Noss, the CEO of TUCOWS, gave us a friendly call to set the record straight and note that DotRegistrar.com has *not* been a reseller of TUCOWS at any time. Our apologies to Mr. Noss' organization.

Our interest in reporting on the business model that has led to the apparent success of DotRegistrar—which, at over 700,000 registrations, is the tenth largest registrar—has been impeded by the apparent unavailability by telephone of any executive or employee of the registration giant. (The company's telephone number is available through neither its web site nor from directory assistance, and the number listed at www.icann.org is out of date.) All interaction is apparently by e-mail or fax only. According to ICANN records, DotRegistrar is owned by iHoldings.com, Inc. of Miami, Fla.

DotRegistrar declined, via e-mail, to comment on our initial, generic questions about its business model for this report. Lacking such information, the diligent reader may visit www.dotregistrar.com to learn more. A DotRegistrar press release, on which SnapNames also requested but did not receive comment, says the company's pricing, technical platform, and technical support are "all geared towards domain professionals." The site states that "resellers" can secure domain name prices of \$6.49 each through the purchase of a "pack" of 2,000 or more registrations. (Because the site explains "most resellers use 1 profile for each one of their clients," a DotRegistrar "reseller" appears to be exactly the same as an individual client.) Reached for comment about this correction, DotRegistrar claimed that the majority of its individual customers were not speculators. The company did not respond to a follow-up inquiry into the relative volume of registrations represented by its non-speculator customers versus its speculator customers, though SnapNames did immediately thereafter receive a call from the company's lawyer. The company's attorney commented that speculators would be drawn toward a bulk-registration model, but so would non-speculators.

The Art of Deleting Unwanted Names

While most newbie domain name speculators believe that to be successful in their craft they need to learn how to *capture* deleted domain names as intelligently and as quickly as possible, it turns out that a sizeable fragment of the profession are actually quite accomplished at the opposite—*deleting* names as intelligently and as quickly as possible.

They do this by exploiting a little known safety mechanism in the registrar-registry interface known as the "five-day grace period." This safety mechanism allows a registrar to "undo" a registration within five days of purchase, thus avoiding the \$6 registry charge. This process was intended to deal with rare situations, such as a clerical error, a court order to release a name that was just acquired, or perhaps a deadbeat customer whose payment turned out to be fraudulent.

Understandably, registering a name and subsequently needing to delete it *due to a true mistake* is not at all a common phenomenon. It is a rare mistake—so rare that we weren't able to find any examples of registrars counseling their customers about how to correct such a mistake. Our recent research revealed that one exception was in fact recent gainer DotRegistrar, which on its site asks and answers the following “frequently asked question”:

Can I delete a domain if I made a mistake?

Yes, you have 72 Hs to delete a domain and get a credit back into your account so no money/DRYs are lost. If you delete a domain after that, no credit can be issued.

However, the phenomenon of registering and deleting within the five-day grace period is so widespread that it negates any inference of actual “mistake”—in fact, the statistics overwhelmingly suggest that in most cases such deletion is quite intentional. The largest statistically significant sample we could measure was taken from August 30, 2001—the day that VeriSign lifted a 20-day suspension on deletions and disgorged 160,000 freshly deleted domain names. Within 24 hours, 40,000 of those names had already been re-registered, most of them within milliseconds of deletion, and nearly all of them by script-mining speculators.

But when we scanned the same list of 160,000 names a month later, we learned that their owners had canceled 25,000 of the 40,000—as if they had never been registered at all. (Those who may have wanted any of these 25,000 names for active business websites, but lost out, probably would have assumed the registration would be unavailable for a minimum of a year and may not have known the name(s) had become available again.)

Extrapolating this statistically significant sample to all deletions, two to three million names per year are registered and then cancelled within the five-day grace period. The burden to the registry of roughly five million extra uncompensated transactions per year (ADDs followed by DELETES) is a cost borne by VeriSign Global Registry Services and, ultimately, by all domain registrants. Registrars don't openly encourage this practice (though most also don't block it in their APIs).

So how has this well-intentioned feature enabled one of the hottest new forms of speculation? Some speculators buy deleting domain names strictly for their “click-through value.” For some names, so many people will type the names into their browsers (perhaps a “typo-squat” name like [microsof.com](#) or simply a dictionary term) that simply putting some banner ads or search links on the attached web site will, over the course of a year, lead to revenue exceeding the minute cost of the name registration. Millions of the names that are taken and not in actual “business use” are simply parked on these revenue-generating pages (sometimes called “parking pages”). A surprising number of “portfolio speculators” individually own tens of thousands of domains, or more, for this purpose alone.

So, like a whale filtering tons of plankton, these speculators will grab thousands of deleting domain names each day, sit on them for a few days to count the accidental click-through traffic, and cancel the names that don't generate a sufficient amount of revenue to justify their registration expense. It's our industry's version of the binge and purge.

The breakdown of which registrars saw the bulk of the 25,000 September cancellations from the original 40,000 August 31st registrations shows that those with an open API for "resellers" capable of scripting through the registrars' connections are especially exposed to the problem. The following lists the number of names in this group that had been registered and canceled within the five day grace period at the most affected registrars:

VeriSign Registrar	12,340	Registrars.com	635
TUCOWS/OpenSRS	7,576	Schlund.de	207
Register.com	2,322	BulkRegister	95
DotRegistrar	731	Shop4Domain	92

In recent issues we've reported on the current debate within the ICANN/Registrar community about a solution to the "deleting names problem." Whatever solution or hybrid is eventually selected from the various proposals aired, we imagine that the eventual new system will shrink this obvious loophole in what was supposed to be a mechanism solely for registrars to remedy rare clerical errors and respond to court orders.

New Registries Not Immune

As a *State of the Domain* reader, you're aware of a number of different ways in which registrars have been creative in enhancing their business models—sometimes within the lines, sometimes stepping on the gray line, and occasionally crossing the line completely. So-called "add-storms" had so plagued VeriSign's registry operations that new rules and temporary workarounds had to be put in place in late August in order to keep the system operational. We also predicted that other major registries should expect the same phenomenon as professional speculators move into to new cyber territories. The new gTLD registries and even some of the larger ccTLD registries are now watching with more than idle curiosity, hoping to avoid the same pitfalls.

It now appears that .biz may be in for its first add storm once it lights the fires on its twice-delayed November 7th launch date—long before the first anniversary of its initial registrations, when deleting names will be purging out of the registry. Yesterday, registrar eNom announced to its customer base that it is taking pre-registrations for the November 7th launch, so that if you missed the ICANN-sanctioned pre-registration period, now you can get in the queue for a pre-emptive crack at names you want, the very moment the flood gates open for general registrations.

Here's the twist: eNom is auctioning its .biz registration bandwidth to customers who will pay the most for the name they want. This will result in heavy saturation of registry transactions at 00:00:01 on November 7. Other registrars may follow suit with this expansion of the add-storms, setting off a heated competition for registry bandwidth on the very birthday of .biz general registrations.

In recent press releases, NeuLevel stated that the cause of the most recent delay in its launch was not related to the *Smiley* litigation but rather to the need for robust load testing of their systems. Sounds like a good call—they're going to need to keep a sharp eye on system resources in order to avoid the kinds of system availability problems that Afilias suffered when .info launched a few weeks ago.