In Search of the Domain Name Holy Grail: Third-Level Domain Name Sales – With John Lyotier

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The holy grail of owning a premium domain name is selling an endless supply of third-level domain names. It has been tried many times in the past, but I have yet to find a success. Today we are going to hear from someone who has a ton of experience in this area. Stay tuned.

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Here's your program.

Michael Cyger: Hey everyone. My name is Michael Cyger, and I'm the Publisher of DomainSherpa.com - the website where you come to learn how to become a successful domain name investor and entrepreneur directly from the experts. The holy grail of owning a premium domain name is being able to sell an endless supply of either email addresses or third-level domain names. In essence, acting like a domain name registry, but without the overhead and bureaucratic ICANN hoops to jump through.

Today I have brought on a Co-Founder from a company whose sole mission is building businesses on top of premium domain names, like Christmas.com, Oahu.com, Renters.com, and many more. It is a company that, quite honestly, has impressed me every chance I have had to interact with the founders. I would like to welcome on the show, John Lyotier, Co-Founder and Chief Marketing Officer of LeftoftheDot.com. Welcome, John.

John Lyotier: Welcome, thank you.

Michael: How did I do on your name?

John: Perfect. Better than a lot of people, including Chris, my partner.

Michael: Nice. John, I reached out to you after Rick Schwartz posted a blog about selling third-level domain names on his TradeShows.com domain name. He suggested domains like Chicago.TradeShows.com, Vegas.TradeShows.com, and Restaurant.TradeShows.com. Rick suggested it could be priced anywhere from $9.99 per year up to $999 per year. You then basically responded in the comment, saying, "It doesn't work. Trust us. We have tried it."

John: Yeah.

Michael: Why doesn't it work?

John: Well, that was a tough thing. It was actually brought to my attention by Frank (Unclear 2:23.3), who used to be one of our advisors and our acting CTO when we first got off the ground. Why doesn't it work? Tough question. It was actually about four years ago - four years ago tomorrow actually, come to think of it - that myself and Chris Jensen, my partner, got together and we had sort of dabbled in a couple different business ideas in the past, and we said, "There are all these great names out there. Let's subdivide the Internet."

But when you actually start delving into it, the first six months are like: "Wow, this is harder than we thought." We kept on going and kept on going and kept on going, but when it came down to it, no matter how much we tried, the fundamental economics of it did not really work.

Michael: All right, and so we are going to dig into why those economics did not work on this interview. That is the whole point of it. So, how long did you wrestle with it before you and your partner, Chris, decided that it is just not going to work?

John: It was a good few years. Probably a good two and a half years. We decided to pivot last January, I guess to our current model, which we will talk about later I am sure, but it was the first year and a half of trying to wrestle the beast. As you said in your intro, it is the holy grail of these premium generic domain names, if you have that infinite supply of inventory, if you could figure out the system.

Michael: Right.

John: Which we tried. We worked with some of the best names on the planet, but when it came down to it, the cost of sale always outstripped ability to deliver the demands to their customer. The typical whole domain registry system is really predicated on the fact that you have people who are searching for names because they have that intrinsic demand. For TradeShow.com, you might be Vegas Trade Show. "Hey, I have a great trade show in Vegas." You are going to go search for something to match your business idea.

Because they had not heard of the whole concept of subdomains as your registry opportunity, you had to go and find that customer who was looking for you at that moment in time. We have found that, well, you had substantial people who would look for trade shows first, and then you sort of subdivide from there, but in the end, that customer, that small business customer needs to be sold. They are being sold to rather than being buying. So, by that, we had to talk them one-on-one and say, "Great, here are the benefits of having a great generic domain name as your parent with your sub operating underneath it." Eventually that cost outstripped the price point that small businesses were willing to pay.

Michael: Totally understand. So, the cost to do it was much more than the benefit you were getting, running that. I often hear people say, "You cannot do that. I have tried that." It drove me crazy when my parents said that when I was growing up. I am sure the same for you. For example, I hear people saying, "Print is dead," over and over and over again, yet I have a thriving print magazine that comes out quarterly for my city. So, what I want to do is walk through an example that you lived and breathed so that we could learn from it. I want to learn what you did, why it failed, how you think maybe next time it could work if somebody wanted to do it under different situations, or maybe there is no next time.

John: Okay.

Michael: So, what is the best example you can provide, where you developed out third-level domain names on a premium domain name?

John: Sure, I will start one level above that. When we first got into this space and started looking at it, we sort of identified three sub-types that we thought would make a good domain (Unclear 5:53.8) opportunity. One, we had geo names. So, for example, we had access to several state URLs, but we wanted to start a little bit smaller on Oahu.com. We had objects. It is best to describe it as an object. So, for example, the best example would be Villa.com. I will use that example because there is the new gTLD for Villas, which we also had a chance to build out, but we chose Villa instead of Villas. I think the third type was the profession. We thought it was a big opportunity for professions, which you could look at the new gTLDs. There sure are a lot of professions that are out there as well.

Michael: Right.

John: But a good comparison would be Villa. We did try for professions from massage, from home staging, and a few things like that as well. But we definitely look at, sort of drill into Villa as a good example.

Michael: Okay, and so just to summarize on profession, you tried to build out and sell Massage.com and HomeStaging.com?

John: Yeah.

Michael: Okay, and so on all three of those areas, you could not find a successful model in any of them. Is that what I understand?

John: Well, let's sort of drill into Villa as a starting point. Our big opportunity there is that, as any successful Internet marketer does, you look at the trends. Are people searching for villas online? Are they searching for vacation rentals? Four years ago, it was a booming space and it is even larger now with the ten-billion-dollar (Unclear 7:22.0) valuation. The - what - 48-million-dollar acquisition a number of years ago for VacationRentals.com. So, it was an absolutely booming space and we know that there was hundreds of thousands, it turned out tens of millions, of vacation rental owners who all wanted a piece of their pie of the web.

So we looked at the villa space and realized: "Can we get those that have something to sell being a night or a week or a month, and can we find those sellers to get them online?" So, we would try to subdivide the geo locations of villa. Orlando.Villa. Tuscany.Villa. MyGreatest.Villa, or, as many people started to do, the name of the villa itself. So, it was BobandMarys.Villa.com. So, that was the audience we really went after first with that, but those small businesses - their entire business is predicated on getting leads.

And so, when we started approaching them, they said, "That is great. We are already listed on HomeAway. We are listed on VRBO. We are listed on Flip(Unclear 8:25.0). What can you give to us that is different?" And I said, "Well, you do not have to get your business elsewhere. You can be your own Orlando.Villa and take advantage of all that traffic." They said, "Oh, okay. Well, what can you offer me on that site? Do I point it to my existing website," because most of these people already have an existing website. I was like: "Well, you could point it to your site." "Well, what about on your site? Can I build my subdomain as a website?" I said, "Absolutely. We have a website builder product for you to do exactly that."

But in the end, that small business who is able to go out and get a 20 to 30-dollar per month package from existing web providers in the vacation rental space, including the domain name, just could not justify the cost. We tried (Unclear 9:08.2) them. We tried direct sales. We had an outbound call center. We brought a call center inside. We tried email marketing. We tried web marketing. We tried everything. Probably the most effective in actually reaching the customers was direct sales. Picking up the phone and doing cold calling of vacation property owners, saying, "Hey, this is what we have." You spend the first ten minutes of the call explaining the whole concept that you are trying to do, saying, "Hey, you can be InsertGeography.Villa.com." They would say, "Oh, that is interesting. Let me think about it."

By the time you actually go around to the sale, you had spent four hundred dollars to get the one sale. We made four hundred dollars over the course of the year.

Michael: Right. Okay, so let me pause you for a second there, John, and back up.

John: Yeah.

Michael: So, Villa.com, you were building out. Did you, as a company, own it, or did somebody come to you and say, "I have this asset that I would like you to build out?"

John: It was owned by someone we are closely aligned to. So, we, ourselves, did not own it, but we had an affiliation with the owner.

Michael: Essentially like a joint venture or some sort of partnership where you would all benefit from the success if you built it.

John: Exactly. Exactly. And you can sort of look where it is pointed now. I can sort of say that two weeks ago, you can see that the new owner, because we did sell it last year, has launched it. You could see the current owner is Booking.com.

Michael: Booking.com. And they were the ones that went on a spree, buying everything villa and villas related over the past couple of years, trying to do it all pretty much under a cloak of WhoIS privacy so that nobody knew that they were buying them all.

John: Yeah.

Michael: But they bought Villa.mobi and Villa.biz, and everything out there. So, can you say conclusively that because you built it out, you might have gotten a higher purchase price from Booking.com for the prior registrant of the domain name, do you think?

John: Absolutely. There are sort of a couple different things that we learned from building it out. The first thing: we had a (Unclear 11:09.2) of success. When we started to no longer have the name or look for opportunities for the space, we were trying to decide what we wanted to do with it. We did have a few other vacation rental domains at the time. So, when we were having to service them, that adoption issues. When we looked at the economics of the subdomain side and that we quickly realized that it was not going to work, we said, "Well, now what?" So we looked at the domains we had available to us, and Villa being one of them, RentalHomes.com being another, and Renters.com being a third in the space, we said, "Well, if all the customers were telling us that they actually want leads, let's take advantage of the fact that we are getting customers coming to the site," because we did build out Villa into a pretty good brand, and see what we can do with it.

So, at that time, we actually had a chance to start driving more business over and above that subdomain business to it, which then quickly took over the subdomain space, and the one revenue stream quickly surpassed the other stream.

Michael: Got you. So, the big idea that you initially had was that you were going to offer third-level domains, so BobandSue.Villa.com or Orlando.Villa.com, and that was going to have a premium value to an end user. And then you were going to a villa owner, and then you were going to also offer website hosting with some sort of easy build wizard.

John: Yeah.

Michael: And what you found was that most of the villa owners already had that, or you were fighting against VRBO.com, which has that sort of builder and the calendar, and taking credit cards, and all that sort of stuff. So, it was basically you had difficulty differentiating your product from the existing ones that were in the market?

John: No, not so much on that side. The big idea really sort of started that when you look at the landscape four years ago. This new gTLD, they were talking about it six to seven years ago. "These new gTLDs are going to come. It is going to be wonderful. It is going to be this promise land." I never believed it. I never thought we would actually ever see the launch of some of these new properties that are out right now. So, when we launched, we thought: "Well, the reality is we are running out of domain names, so what can we do that can actually take these assets and create more real estate for that end consumer?" (Unclear 13:31.3) those end consumers will be coming online, and they did and they are still coming online.

There is hundreds of thousands of new vacation rental owners who are launching their sites every month. So, the question is how do you reach them, that consumer at that moment in time. And that really is where the difficulty was and that actually ended up becoming a bit of my comment on Rick's blog there; was that where the new gTLDs do have that advantage, they do have the deals with the registrars. Where that consumer who is searching for a name space to hand their hat and where they have a place to go, we did not have that opportunity.

Michael: Right. And do you think that most villa owners, when they are looking to gather leads to rent out their villas, over time, are looking for domain names or are they just going to VRBO and other rental sites and listing it in as many locations as they can?

John: Well, I think there is a bit of a shift occurring right now. I think, when they start, they say, "Okay, I have a place. Now what do we do with it," and then they go to the big players. They go to FlipKey. There is a division of TripAdvisor. They go to VRBO/HomeAway/VacationRentals, who is part of the (Unclear 14:43.2) of sites. They may go to Airbnb now, which is the new model in the space. So, they go there first and they say, "Okay, I need to create a listing. I need to get people to see if my place is attractive to them."

You probably have about half of the inventory from our research is rent by owner space, which is one of the reasons why we actually went out and acquired RentByOwner.com recently, but the other half is the agent managed. All the agent managed properties, the ones that have anywhere from two to 20 thousand properties operating underneath, they all have sites. It is that individual property owner who does not have a site, and how do you reach them? You give them a lead, they will be happy.

All these new sites, all these new platforms have eCommerce built into it. They have all the systems and the shared calendar, and all that, which is essential to operating a website or web space. So, as long as you can deliver that to them, I do not think they really care that it is going to come from OrlandosBestVilla.com, OrlandosBestVilla.us, or whatever the domain happens to be. So, for them it is can they go out and get leads into my business, and if so, what is it going to cost me from a cost for acquisition standpoint. So, if we were to deliver leads for them, they would have been happy. And the ones that we did sign up were happy because our site did rank and they had preferential ranking under our directories and all those things.

Michael: Right. So, for anybody searching for that geography, they would get the leads.

John: Absolutely.

Michael: So that was the benefit that you provided with a premium domain name, whereas an Airbnb or a VRBO.com also have a ton of traffic. Some portion are going to search for a very small sliver of some geographic area, and then the leads will go to, hopefully, that person or they will be able to search all the listings in that geographic area. So, it is pretty much the same.

It is maybe apples and oranges, but you are generating leads. You both have traffic. And how well you do that determines whether people are going to stay with you or maybe try some place else.

John: Yeah, absolutely. If you look at the search market from four years ago, a lot has changed since then. Four years ago, from an Internet marketer's perspective, it was dead simple to rank a subdomain in Google. You could often own positions one, two, three, four, and five if you had the right subdomain system. So, when we launched, we were actually doing really well organically from a lot of the subdomains. Where you have Villa.com in the position number one, in position number three you would have Orlando.Villa.com.

So, it was really easy to do that on Google. Google has changed their algorithm since then, so it is much harder to do now. Bing, on the other hand, still loves subdomains, so that is great. We still have a lot of our subdomains that are out still, existing, ranking very well. So, HeliTours.Oahu still ranks in the top two or three on Bing for that concept. But when that market changed, then a lot of the economics also change.

Michael: Now, do you think that you lost your rank for Orlando.Villa.com because you did not have enough content about Orlando? It did not look unique enough to Google to rank it as a separate website than your main property.

John: No, I do not think so. There are a lot of things you can do to create economical content. The content in the model that we had was really turning the subdomain to the user to create their own name space, so it did become their site. It was their unique content. We had a bit of a CNS that was powering the whole system, so they could create blog posts. They could create unique content on the subdomain itself. So, you had unique content on the main site. You had unique content on the subdomain site. Things sort of carried on from there. So, I do not think that was it. I think it was just sort of a reflection of the reality that Google did not want a whole bunch of domains all being on the top.

We still ended up ranking very well for the main name. Just the subdomain did not have as much. We did not have two or three spots on the shelf space. We only had one.

Michael: Right. And you think that is still the case today.

John: That is still the case today.

Michael: Okay. So, I understand how you saw the market three to four years ago, how people were coming online on a regular basis, how they needed their own space, and you were trying to take advantage of that by offering the subdomains and UniqueNames.Villas.com. The offering you built, I understand from a technology standpoint, you offered third-level domains. You offered a website builder. Did you offer email associated with that in case people did not have it, and what other technologies and features did you offer as part of your package, John?

John: Well, it ultimately depends on the domain itself. We built a platform, and that platform really became the core of what we do even today. We have, with our Christmas.com site, we still use our subdomaining platform to give people personal family pages. So, Cyger.Christmas.com. Schilling.Christmas.com. He has .Christmas. I will give him a plug. So, people can use our existing platform today to build their pages. So, within our platform, we did have email as a core component to it. That was very important when you start getting to the professions. So, you have a home staging professional. Rather than having the Gmail account, they can have Seattle@HomeStaging.com. We more or less closely aligned the chosen subdomain with the email system in place.

So, we had emails as part of it. We had a vertical specific builder. So, if it was in the home staging space, you would have the gallery components to it. You would have a lead gen widget, which allowed people to contact you. If you were in the vacation rental space, we had the calendar component. We had the booking components. We had a weather widget. A lot more sort of vertically related concepts. So, we had lots of those types of features, but the underlying technology behind it actually became much more complex when you start looking at the things that you really need to run the registrar itself. The ability to transfer names. The ability to facilitate expiration.

What happens when a domain expires and the credit card lapses? Do you just immediately release it back? Do you grab it yourself? All of those sorts of things were issues when we first started jumping into, eyes not yet opened. "How hard can it be?" You start realizing that the complexity of the registrar system itself. We head down for that all to our subdomain customers as well.

Michael: So, you built that whole registrar component. The ability to email the customers when their credit card expired so that you could get a good credit card.

John: (Unclear 21:30.5) all that stuff. Yeah.

Michael: Wow.

John: Yeah.

Michael: And sell a domain. If I wanted to sell Seattle.HomeStaging.com along with the Seattle@HomeStaging.com email address, I could sell it.

John: Technically you could. We had very good legal advice that we were not even selling subdomains itself. It is not like the traditional domain standpoint. You do not have the authority to sell a subdomain. You can lease. We tried to rebrand it not so much as a subdomain itself, but as a marketing name. So, you use this for your marketing purposes and you more or less are leasing on a yearly or month-to-month basis. We had some various legalese contract terminology in there that you had to do it. So, the transferring of assets, we did facilitate the transfer, but it was not nearly as legally binding, I would say, as the existing registrar system.

Michael: Sure, I understand. So, you are currently using the system now, going forward, and you mentioned you already built out Christmas.com.

John: Yeah.

Michael: How long did it take you to build the technology platform that your company uses right now?

John: Oh, wow. Well, we change the platform every day. Right now we have a team of about 40 people, between our offices here at Maple Ridge, suburbs of Vancouver. We have an offshore group. You can see the Bangladesh flag behind me, there. I am sitting in what we classify as our new (Unclear 22:53.6) room. We have a team of 30 plus people over at Bangladesh.

Michael: Wow.

John: But when you have a whole bunch of smart people in a room, you will constantly iterate and build and build and build the system. Because we are still using the core of the same platform, it is still not done. There are always things we want to improve and change and grow in there.

Michael: Sure.

John: We still have some customers who are using subdomains on things, but we are not actively promoting that side of the business, just because the cost of sales is too great versus the return that we can get from it. We would rather be the customer ourselves, knowing that we get a whole lot more. Well, looking at Oahu as an example, we mentioned that one earlier. You go to Rent.Oahu.com, and Rent.Oahu is a subdomain, but rather than leasing that at 20 to 30 dollars a month to a realtor or a property manager in Oahu, we rent vacation rentals, and that promotes our other brands.

Dating.Oahu has a dating backend to it. (Unclear 23:56.6).Oahu. So, HeliTours is a great example. HeliTours still ranks very, very well in Bing. Typically in the top two or three or four, most HeliTours Oahu search concepts. And the average HeliTour from Oahu to the Big Island to go see some volcanoes and stuff like that, you are dealing with an eight-hundred-dollar package, which you get your eight to 12 percent commission on. It does not take very many of those to trump the 20 dollars per month you are going to get from leasing out that subdomain.

Michael: Right. Okay, so let me come back to Oahu.

John: Okay.

Michael: I just want to finish up on Villa.com, but I want to come back to Oahu. On Villa.com, building out the third-level domains, offering them as website packages to individual villa owners across the world was not taking hold because it cost you too much to market and convince them to buy one than the return that you got. The sales outweighed the financial benefit that you get. Even over time, John? Even though they were paying you like 20 dollars per month, it just was not worth it?

John: The closest we got down. This is once our sales team got up and going and got into the rhythm of the sales script, and what are you saying, and the process. We were still dealing with that anywhere from 250 to 350 dollars per cost of acquisition. At that magic price point, we figured we can get just under five hundred dollars per customer. So, technically yes, it was profitable from a direct sales approach. They probably would have had equal success selling an InsertGenericNameHere with a website builder doing that model, if not maybe even more. So, if you do not have to educate the audience on: "We are not actually selling you a domain. We are giving you this marketing opportunity. Plus you get all these perks on top of that."

But when it came down to it, you look at the value of the asset that you are creating and the market and the business you are creating, there was way more value for us to take on those names ourselves.

Michael: Sure.

John: We should have Orlando.Villa.com because we know we could make way more than 40 bucks a month off Orlando.Villa than somebody who is out there doing it right now.

Michael: Right. So, that business model just did not make sense for your business, and what you decided to do instead was just take all leads coming in through Villa.com and sell those on a cost-per-lead basis. Is that correct?

John: Yeah. So, for Villa, when we were dealing with Villa. We had more when we took on to RentalHomes and Renters, and then RentByOwner, but with Villa, we were sitting on the transaction itself, so we were able to take anywhere from that eight to 12 percent of a villa booking. And you are booking a place down in south of France for three thousand dollars for a week. That was a nice chunk of change when you can get those bookings through the system.

Michael: Yeah.

John: But otherwise, whether it is a lead process or a conversion process, the model is still the same, because really marketing is all math now. You have cost of acquisition. You have revenue you get from that traffic. Can you make sure that your revenue (Unclear 27:00.2) your cost? As long as you are doing that, you are making more money.

Michael: Yeah. And so, for you, it just did not make sense to go with the business model that was selling the third-level domains with the website builder and the email rolled in. It was just easier and better, and you can focus your core competencies on bringing in leads that would generate eight to 12 percent commission for every villa that was booked as a result of a consumer coming in.

John: Yeah. I still believe that, somewhere in there, there is a model that makes sense. I do believe it has to be from almost entirely self-service. As soon as you have a self-service approach, where you have that demand coming to you for the domain itself, that makes a lot of sense. Then it is the typical registrar approach. If you look at what Paul Goldstone is doing with Co.com, really that is a generic domain name that he is turning into a second-level. That makes a lot of sense. He is going after and partnering with some registrars, and doing that sort of thing. As soon as you can get into that self-service approach, your cost of sales drops immensely, and then there is some residuals there.

But for us, personally anyways, the cost of sales approach that we were taking by trying to have some of that direct distribution model was not economical.

Michael: Right. And could you go to registrars, like GoDaddy and eNom, and try and get ThirdLevel.Villa.com into the registration stream just like Co.com did?

John: We looked at it. We did not talk to GoDaddy directly. We talked to a few others in the space, primarily those who have aftermarket systems or name spinning systems that: "Hey, you seem to be searching for a villa in Tuscany. How about Tuscany.Villa.com?" So, we definitely looked at that, but we were going to sort of go down one or two approaches. One going that way. Go into that whole registrar distribution side, or then we started looking at: "Okay, what is our core and what are we really good at," and it turned out that what we are really good at is we are really good at building businesses. Let's focus on building the domain and the business the best we could do, so we decided to go down that approach instead.

Michael: Got it, all right. So, I understand why you decided to shut down the business, as it originally was setup, and then you pivoted. You changed direction to a different business model. What happens to all those customers that you did sell on the old system, John, that were paying the monthly fee for their third-level domain and hosting and any other services that you offered?

John: It all depends on the brand itself. We still have some of them. We still get checks in every month from some customers. So, from that side, I think: "Wow, look at those residual checks," because you do the work and you are still reaping the benefits for certain brands. On the others, for example, when we sold Villa, we did not have a lot of customers there, but we definitely had a customer migration. Some pain, and sometimes that is okay. Yes, we appreciate the fact that you have been paying us for the last number of months. We are refunding you and more or less buying that subdomain back from that customer.

So, there was definitely some customer management pain that we had to deal with. It is including buying out customers and apology. We did have that in our terms of service ahead of time that this is a possibility. It was one of the things that we had looked at, but that definitely should be a consideration for anybody who is looking down this path going forward; is that unlike the new gTLDs or unlike existing domain names, you definitely do not have that protection that you would otherwise. But I do believe we took care of the customers that we did have surveying those subdomains, and we still have some of them. They are still using our sites for other ones.

Michael: Got you. So, legally you were allowed to do it because it was in your terms.

John: Yeah.

Michael: Technically it was possible to pair off parts of subdomains and keep them going for a while. Personally, it was probably pretty draining to have to deal with all those customers and financially refund some of that.

John: Thankfully I had Chris for that. Chris handled that side. I was lucky. I did not have to deal with that.

Michael: Nice. All right. So, what I want to turn my attention to now is what are you finding traction offering nowadays. You talked about Oahu.com.

John: Yeah.

Michael: So, currently, your company, LeftoftheDot.com, is still building out Oahu.com, still managing it.

John: Yeah. We are finding great traction on Oahu, for example, in the tours. I was looking at some numbers the other day. We had pushed through about 115 thousand dollars in tours in the last 12 months.

Michael: Wow.

John: So, there is a significant tour volume attached to it. Rent.Oahu, as a subdomain, is driving a lot of business for our rental homes. (Unclear 31:47.3) more or less we have a search widget on Rent.Oahu that pushes traffic off to our other brand, but we have definitely done a lot of money from that as well.

Michael: Awesome. So, instead of doing what you tried to do originally with Villa by offering geographic areas on Oahu, like North Shore or personal branding, you have said, "We are going to take the major areas that money are spent on Oahu and we are going to do Rent.Oahu.com, Dating, Golf.Oahu.com, HeliTours, and maybe a few others, and maybe others will grow in the future as more travelers go to Oahu and decide to do different things." So, that is your model nowadays, is to find the areas where the most amount of money is spent and then leverage the brand in those areas.

John: Yes and no. I will sort of back up. Let's go back and talk about Villa for a second, which will come back into Oahu by way of a little bit of a circle. When we started to talk to Villa, we were starting to look (Unclear 32:48.6) pivot. We started talking to those in the vacation rental space. And we had these great brands, and Villa and RentalHomes and Renters. We are building out this bigger business, or are you interested in buying one of these assets, because we were looking at: "Can we pay for continued growth and execution by selling an asset?" And they said, "John, very interesting to us, but we much rather spend ten million dollars or 20 million dollars on buying a business than we would spending one million dollars on buying a domain name."

So, for those companies, those large, established companies, they justify every single day acquiring companies, acquiring brands and businesses. They cannot justify really buying an asset.

Michael: Right.

John: So, when we looked at it, we said, "You know what." It really works well with Villa. You had a great generic domain name, and you had a (Unclear 33:44.5) business model. Essentially got some traffic and some search ranking. We had a really active Facebook community. Good Pinterest profile. All those sorts of things, building the brand that is Villa. You put those together and you are no longer dealing with an asset-based valuation. You are dealing with a business-based valuation. Asset plus business equals multiple thereof.

So, in looking at those concepts, you are either then looking at a name like Oahu, which are sort of trying to decide is now the right time to part ways with Oahu. You look at: "Have you increased the asset in value itself," and really that has come down to what is our core right now, which is domain appreciation. We take an asset that has (Unclear 34:23.6) may have a million-dollar valuation. Can we turn it into a business that is worth five, ten, 15, or 20 million dollars from there?

So, typically, when you do that, you could generate a business that has - I don't know - half a million dollars or a million dollars in revenue each year, with some prophesies slowly growing over five years. Yeah, we made a few million dollars in revenue, or you can appreciate the asset and realize that upon liquidation of the sale itself, liquidation of the asset with the business. So, that really has changed our models that we really focus on taking that generic domain now and putting a business on top of it so it is a much more valuable asset that is a real functioning, success, ongoing business.

Michael: Sure, and that is what you are trying to do with Oahu; is to build multiple revenue streams that generate profit so that you can then sell it for a multiple of the earnings before income taxed deprecation in assets (EBITDA). Exactly as you said is what I have seen. Businesses that have money to spend do not want to acquire a domain name, an asset that is non-revenue producing. They want to tack on top-level growth to their company and they want earnings that they can use to plow back into the business.

John: Yeah, absolutely. If you look at Oahu as an example, the right buyer out there somewhere probably has a strategic interest obviously in the Island. We have made sure that the brand itself is very travel and tourism focused. I believe when you were talking to Chris, back at Richard's conference in Vegas there last year, everybody was quite surprised that we already had an exit plan in mind with Christmas. But every time we take on any brand, any domain, whether it is Oahu, whether it is RentalHomes or whether it is Renters, we know exactly who the buyer is or we have a vision who the buyer of that business is going to be, whether it is one, two, or three years down the fold.

Michael: Yeah. No, that makes perfect sense. So, right now you are not the owner of Oahu.com. Is that correct?

John: We are closely aligned with the owner.

Michael: Okay, just like you were closely aligned with the owner of Villa.com.

John: Correct.

Michael: All right. Does LeftoftheDot own any assets yourselves, or is your business model primarily to use your technology and marketing and strategy to add that value to other people's domain names?

John: We have some assets that we have either majority ownership in or a significant portion in, but we do have some assets ourselves that we have been able to acquire along the way. But the best names that we want to work with are the million-dollar names. As a startup, we got up and going four years ago. We could not afford to go out and buy these million-dollar domain names, but we have been able to start acquiring a few different names ourselves. HomeStaging.com. We have sort of a 50 percent share on HomeStaging with another domain investor. At RentByOwner, which is really taking advantage of the platform we have built for the vacation rental space. That is majority owned by myself, Chris, and the rest of LeftoftheDot.

So, we are starting to acquire some assets itself, but really those are sort of the level down below these million-dollar portfolios that some of the owners out there have.

Michael: Why would you rather have a million-dollar plus domain name to build on top of versus building IOahu.com that you can buy for 25 thousand dollars, let's ay?

John: Well, really it goes back into the appreciation value you can go for. Once again, if you know the exit, and that exit is typically talking to these companies, whether they are large, public entities or at least deep pockets, you need to go in there with that nice story that: "Yes, we have this great brand that can redefine the entire industry. Plus we have this business. Therefore, it is more." Like anybody, if our number one business right now is building businesses, you want every advantage you can get.

Go back and talk about Christmas. I had a great conversation when we were first launching Christmas with a very large reseller of Christmas goods, and we were saying, "Yeah, we want to be the wholesaler." "No, sorry, we are full and we are not taking any more resellers." "Yes, but we are Christmas.com." "Well, okay, I will take a message. How do you spell that?" "Well, Christmas. Christmas.com." "So, is that with or without the hyphen?" "No, no, no, it is Christmas." "So, X?" "No, Christmas." "Oh, hold on a second. Let me get somebody for you."

So, whenever you have that generic domain name, you have those intrinsic advantages. And for us, it was trying to start these businesses that are business that are extremely valuable to that potential acquirer. Every advantage you can get, which a generic domain gives you, is a great advantage. The other half of that is, as soon as you have that generic name, whether it is Oahu or RentalHomes, or wherever, a large part of our business is actually doing marketing and doing business into it. So, for Oahu, if you search for Pearl Harbor Tours, we probably have a little Google ad or Bing ad that is appearing right there when you are searching for that. That end consumer intrinsically trust Oahu.com way more than they would for IOahu. So, if you can get that intrinsic trust, my click-through rate on my ads would be much greater. My click-through rates are greater. Therefore, my quality score is greater. My cost of acquisition goes down. I win. So, Oahu gives you that over IOahu.

Michael: Definitely, and we have talked about that on prior shows. I believe it was the CEO that owned a brandable, switched to CarRental.com.au, and immediately saw the same benefit that he was getting higher click-through rates and lower cost-per-clicks as a result.

John: Yeah.

Michael: Do you also receive a ton of type-in traffic on these premium domain names, like Oahu.com and Villa.com?

John: Depending on the brand obviously. Every brand has different type-in traffic or different levels of type-in traffic. Some of them get really good type-in traffic. And others - now it is really hard to measure because they are business and brands in their own rights, so they get type-in traffic already.

Michael: Right.

John: But when they started it, there is always that residual traffic that is the initial baseline of that traffic to a domain. So, before we started Oahu, you look at the analytics and say, "Oh." I forget the number, but there is always that certain volume of traffic. So, for example, we are launching RentByOwner to compliment our other two sites in the space this week. I can say that it gets about one hundred uniques a day as type-in, whereas right now it is just a one-page splash, depending on the tech team if they deployed it while I have been on this call here, which they might have. They were looking at the potential to deploy it. But up until that point, they have only had really any organic. It will not be direct nav, but direct nav definitely is a benefit.

Michael: Yeah. John, I want to come back to the TradeShows.com domain name, but before I do that, people are probably listening to this show, thinking, "Oh, I have got a premium domain name. I totally want to slice it by geo, but now John is telling me that geos do not work. I am going to email him anyways." Tell me a little bit about LeftoftheDot.com. Are you currently looking for partners to work with, to use your technology, and what kind of domain names would you be looking for if you are?

John: No is the right answer. It is that we are in a pretty fortunate position right now that we are full. We know we cannot stretch ourselves too thin. We have a few projects that we will be launching very soon and a few more that are in (Unclear 42:07.1) that will be launching towards later in the fall. But for the most part, we do not typically bring on new external clients. I mean we are always open to new opportunities and we are always willing to explore it, but for the most part, we are not really seeking new business opportunities and new partners because we have an incredible portfolio to work with already. And when we typically look at a project, we do not look from a great, here is a domain for us and what should we do with it. We typically start the other way around, saying, "Let's identify a market inefficiency," and then go find a domain for that space.

So, I had an inquiry the other day that identified a big travel and tourism market inefficiency that I saw, so I started with a domain that might match that category. And where have been around now, the domain space, for - what - six or seven years, we started to have (Unclear 43:09.3) context in the space, so we can reach out to a few people and say, "Do you have anything good that is in the stock market and stocks and finance space," and, "Oh, yes, we do, and here you go. How about this name?" So, we have a few of those types of things, but we typically do not take on new clients. But hey, you never know. Things may change quickly.

Michael: All right. So, back to TradeShows.com.

John: Yeah.

Michael: Here is Rick Schwartz with his great million-dollar plus domain name around an industry that is billions. Thousands of companies come to CES and Las Vegas. The Trade Show Seminar is enormous, and he is probably looking at it and saying, "Well, I have not gotten any offers on it, any that are worth considering, so why not build out third-level domains? What do I have to lose?" And if I could summarize, if I think about the conversation that we have had here, John, you would say the cost-per-acquisition to try and sell each of those third-level domains is going to take way too much. The cost is going to be way too high for the amount of benefit that you are going to get for a hundred-dollar or five-hundred-dollar year package on a third-level domain. Is that a fair summary?

John: That is a fair summary, and even adding to that, there may be some detriment. If you do finally have a chance to sell it, with the effort you have gone into sell 30, 40, or 50 of those third-level domains, well, that is detriment to the sale price. And that needs to be factored into the effort. It may enhance the sale price. If you can build it properly, it may enhance the sale price. We do believe that the four thousand to five thousand different third-level domains we have on Christmas has enhanced the value of

Christmas.com, because we basically have people who are coalescing around the brand, which is what we wanted it to do.

If you have a CES or one of the latest and greatest E3-type expo for trade shows, that may be a detriment to the eventual buyer of that domain, unless of course that will become the brand and business that is trade shows. In that instance, yeah, go for it. That could become residual revenue to itself.

Michael: And what is the most you could charge for a third-level domain, do you think?

John: Well, when I saw the guys for Chicago.com go and say, "Hey, we can get thousands and thousands of dollars for an email," we were saying, "Really? We have been charging 25." We basically have a price point that all depends on the level of the package. It goes typically from 19 dollars to 49 dollars per month, and that is really based on whether it is a small business website bundle package, because that is what they can get if they want to. An existing incumbent in the space, and they get their whole web package with a domain name all included. So, that was really our price.

If we get more for those premium ones, great. Well, I know Chris has the most powerful email on the planet with Samsa@Christmas.com. What is that worth? That alone is probably a million-dollar email address. So, what could you get from it? It does depend on the domain. And once again, just like any other domain out there, it all depends. If there is a buyer willing to pay it, then you should be willing to charge exactly that.

Michael: Yeah. Now, Andrew Rosener just bought Santa.com.

John: Yeah.

Michael: Would you consider doing a deal with him on Santa.com since you have already got Christmas.com built out?

John: Let's just say we have talked to Andrew recently.

Michael: All right. And I still need to follow-up with Josh Metnick on Chicago.com, because he ended up, I believe, selling the domain name. And I was not quite sure if he ever made email addresses a success, trying to sell them for thousands of dollars per year. He is probably going to tell me he is under NDA, which always kills me because I want to figure out what works and what does not work.

John: Yeah.

Michael: Before I let you go, John, I did have one other question for you, because you mentioned Massage.com. And I am not exactly sure what you tried to do with Massage.com and whether you considered it a failure or lesson learned, or if it is currently operating, but I know Ari Goldberg and Jason Schaffer over MD.com are building up third-level domains on top of their Medical Doctor, MD.com, domain name to try and sell advertising and sell services, and maybe sell new customer leads and things like that.

What do you say about selling third-level domains on a profession, like Massage.com or MD.com? Is that going to work or is that different than the geography that you have tried in the past?

John: Well, in ranking of likely of success, I would say profession would be at the highest with the geo being the lowest. The primary reason being is that, on the geo, it is basically you have everything under the geo. It is just a microcosm of the entire world. If you have a profession, you can have very niche marketing. You can market in trade publications. You can market out to that profession. You can go out and get a list of massage therapists and say, "Okay, we are doing cold calls to these 40 thousand massage therapists across Canada." That is what we are really doing. We are doing a direct sales approach.

But once again, those small business professionals are busy, and they are busy being a professional that they do not understand technology, the web, or whatever. The biggest challenge for massage, for example, was actually trying to find that massage therapist who was not in, treating a patient.

Michael: Right.

John: And how do you actually talk to somebody who does not want to talk to you? We tried literally going door-to-door with one of our local sales teams, trying to find a few people. We did have some pretty good success with Massage. In the end, we decided to go to the owner and say, "Hey, listen. We gave it a shot." We have a corporate philosophy that failure is always an option, and we have failed way more often than we have succeeded, but the time when you do succeed definitely you learn from failures and move on from there. I do think that there may be some opportunities still for some of those professionals, but once again, you still come down to the fundamental question: can you get distribution to those that are seeking and at the time that they want to buy?

That is the big thing. If they are not wanting to buy at that moment in time, there is no amount of convincing can convince them of that. "Hey, Seattle.Massage is better than SeattleMassage."

Michael: Yeah, great point to leave it on, John. If you have additional questions about development or third-level domains, or any of the topics that we discussed today, please post them in the comment section below this video and I will ask John to come back and answer as many as he can. John, if someone wants to reach out to you directly and say thank you for taking the time to come on and explain, given your experience and your technology, why this could not work in the past, and just to say thank you for your time, what is the best way they can do that?

John: Probably the best way is through my LeftoftheDot email address. That is John@LeftoftheDot.com. Of course, like every good domainer, I do have my name, so, John@Lyotier.com as well, but reach out to me on LinkedIn and there is a link off of our LeftoftheDot site to my profile. I am always willing to engage. Always willing to have conversations. Just anybody who wants to reach out and chat about domains or Internet marketing, or any of those things, I am always available.

Michael: Excellent.

John Lyotier, Co-Founder and Chief Marketing Officer of LeftoftheDot.com. Thank you for coming on today's show, educating us about third-level domains and development, and thanks for being a Domain Sherpa.

John: My pleasure.

Michael: Thank you all for watching. We'll see you next time.

Watch the full video at:
http://www.domainsherpa.com/john-lyotier-third-level-domains/