

### Due Diligence for Domain Names, Websites and Services - With Michael Cyger

Watch the full video at:

<http://www.domainsherpa.com/due-diligence-domains-websites-services/>

Three messages before today's interview educates and motivates you.

First, if you're a domain name investor, don't you have unique legal needs that require domain name technical know-how and industry experience? That's why you need David Weslow of Wiley Rein. Go search for David Weslow on DomainSherpa, watch his interview and you can see for yourself that he can clearly explain issues, can help you with buy/sell agreements, deal with website content issues and UDRP actions, and even help you write your website terms and conditions. David Weslow is the lawyer to call for Internet legal issues. See for yourself at NewMediaIP.com.

Second, managing multiple domain name marketplace and auction site accounts is a pain. Inevitably, you forget to sign into one and lose a great domain...or worse. Now imagine using a single, simple-to-use and comprehensive control panel to manage all your accounts. That's Protrada. You can setup search filters, analyze domains, automate bidding, list domains for sale, and buy domains across all major marketplaces. Protrada also has a new semantic engine that builds Google-friendly websites with rich content and network feeds. Sign up at Protrada.com to get 20 free credits and start building and monetizing your domains today.

Finally, if you have questions about domain names, where should you go to ask them? The answer is DNForum.com. Not only is DN Forum the largest domain name forum in the world, but it's the best. You can learn about domain names and the industry, buy and sell domain names, talk about domain name news, and meet other domainers just like yourself. Register for a free DN Forum account and begin advancing your skills and knowledge today. And when you do signup, send me a friend request so we can connect.

Here's your program.

Michael Cyger: The whole point of due diligence is to identify potential issues before you spend money.

Then, when you understand the magnitude of any issues that you've found, or the potential risk involved, you can make a more informed financial or business decision.

For example, before I spend money on the purchase of a used car, I want a professional to evaluate the drivetrain, electrical system, brake system, tires and frame to tell me if there is anything of concern: a prior accident, low brake pad or tire levels, cracking belts -- anything that may cause the value of the car to be worth less than what I think is a fair price for the car. And I pay a certified, professional mechanic a fee -- about \$100-200 -- to go over every part of that car looking for potential issues. It's no guarantee that the car will be flawless, but it does guarantee that I'm making a large asset purchase after knowing the facts.

That's an example of buying an asset, but the same is true for buying services. You'd likely never consider entering into a business partnership without knowing the other person over some period of time, or offering a diamond ring to a person on the first date. A million things can go wrong between that first date and the wedding day, and that's why people date -- so you understand the benefits and issues that you might face in that relationship.

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So let's get into this tutorial.

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You should do due diligence in any business matter where you have the potential to lose money -- from buying a domain name, to purchasing a fully-built website, to hiring a contractor to perform services for your website or business.

In due diligence, you're trying to uncover anything that could be of financial detriment to you if you proceeded with the transaction. It's a warning of danger. Every warning sign should be considered.

You're going to want to do due diligence any time you spend money, but especially when you buy a: 1) domain name, 2) prebuilt website and 3) website services, such as development, search engine optimization or conversion rate optimization.

Let's get into it.

### 1. Domain Name Due Diligence

Why is due diligence necessary on a domain name?

- What if you're buying a domain name that has a registered trademark by someone else and you plan to use it in the exact same fashion?
- What if you're buying a domain name from someone who's in control of the domain name but not the rightful owner -- which is often the case with webmasters and website contractors?
- What if the domain name was used for illegal purposes in the past, such as child pornography, illegal gambling, email spam or phishing?

It's your job as the buyer to either complete the due diligence or make sure the risks of purchase outweigh the costs of due diligence. If you purchase a domain name for \$5, you might not care if a UDRP case is filed and the domain is transferred to a complainant; or if a law suit alleges the domain name was sold illegally to you, and is transferred back to the previous owner with no reimbursement of your expenses.

If, on the other hand, you're buying a \$10,000 domain name and you lose it in UDRP, you're likely going to feel that pain. And, just like if you bought stolen property off the street, if the police show up and find you in possession of stolen property, it can be confiscated and returned to the rightful owner at your loss.

So how do you complete due diligence for domain names?

I've done an entire interview with Steve Jones on due diligence for domain names. (<http://www.domainsherpa.com/steve-jones-domainate-interview/>) Please watch that show before making any large investment.

I'm going to go over a few points:

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1. Conduct a trademark search of the domain name (if any exist, they may be red flags)
2. View the DomainTools.com whois history -- you have to buy the service, but it's worth it to understand who owned the domain name in the past.
  - Call the previous owner and verify it was rightfully sold to the current owner.
  - Make sure the seller listed on whois is the person trying to sell it to you.
  - If the domain name is under whois privacy, ask for proof of ownership.
3. Look at the Way Back Machine on Archive.org to see the archived copies of the web site (if robots are blocked and it's not showing any, that could be a red flag)
4. Verify the identity of the seller by requiring a notarized Purchase/Sale Agreement
5. Consult an attorney to review all details above, whether you did your due diligence yourself to save money or had the attorney complete it
6. Use a domain name escrow

Domain name escrow is likely the best known aspect in the domain name industry. A third party holds the money from the buyer, and waits for confirmation that the purchased domain is transferred from the seller to the buyer before the money is released to the seller. It's a simple process, and there are many escrow companies that provide this service.

We have also published an article about the domain name escrow process (<http://www.domainsherpa.com/how-does-domain-name-escrow-work/>), and have conducted an interview with Brandon Abbey, CEO of Escrow.com (<http://www.domainsherpa.com/brandon-abbey-escrow-interview/>). Read and watch those resources to become more knowledgeable on the topic of domain name escrow.

Finally,

7. Purchase the domain name with your credit card
- Often times fraud is covered with credit card purchases. But verify with your credit card company before your make any purchase.

Now, let's turn our focus on website due diligence

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### 2. Website Due Diligence

Purchasing completed websites seems relatively straightforward. You can view the website and look at the HTML code of any page using regular web browsers. If you like what you see, then value is in the eyes of the buyer. Pay what you think is a fair value. Nobody is forcing you to make the purchase.

You can look at websites listed for sale at eBay.com or Flippa.com and try to find comparison sites and values, just as you would in valuing a house for purchase. Be sure to use the advanced search options and specify that you want to see sold or completed listings instead of current open listings. In other words, I can ask \$10 million dollars for my house but nobody is going to pay me that much for it -- so using my asking price as a comp is not valid. Look at closed deals within the past year.

A simple 5 page WordPress powered website with customized theme might range from \$300 to \$3,000, depending on work completed. A geo-domain website may be setup for as little as \$700, let's say, but if a database of businesses was purchased and loaded the cost may be double or triple. It's your job as the buyer to ask the questions to make sure you understand everything that's involved in the development of the site, and everything you're getting, so you can assess if it's a fair value.

I received an email this morning from a site called CrowdSpring.com. They offer:

Logo Design - \$269

Small Websites - \$729

Elance.com, Freelancer.com and Odesk.com all allow you to specify what you want, how you want it done, and have people bid on your project. I've personally used Freelancer.com and Elance.com and received great results -- but you have to be aware that the more detail you provide, then greater chance you'll receive what you expected. And if you don't provide enough detail, you will be disappointed.

Here's another example, if someone says they used a WooThemes.com theme for a WordPress site, you can go to WooThemes and determine the cost to

purchase the theme to be \$70, then estimate how much it would be to set up a host, install the theme, customize the theme, write the content, and publish the content. Only you know the details of the website you're reviewing. If it's 10 hours to complete all of the above, how much is your time worth? If you value your time at \$25 per hour, then 10 hours at \$25 per hour is \$250 plus the cost of the theme and domain name. If your time is worth \$50 per hour, but it would take you 20 hours to learn WordPress and complete the work, then \$1000 would be your cost to reproduce it plus the theme and cost of the domain name. It's all about build versus buy...an issue business people wrestle with daily.

WordPress developers charge anywhere from \$10 per hour to \$300 per hour, with the lower end generally being programmers in developing nations and the higher end being expert developers who have provided major contributions to the code base of WordPress.

Not sure how long something should take or how technical the work is (and it's associated cost per hour)? Get networking or hire a consultant. If you attend WordPress Meetups in your geographic area and you're a social person, you're likely to make friends. Ask friends, when you feel comfortable, for a favor and be sure to reciprocate or take them out to lunch in exchange for picking their brain.

Or, hire a consultant to perform an analysis of a website -- they can usually complete the review in 30 minutes and write a 30 minute summary email or spend 30 minutes going over their findings in person or by phone, which is likely around or less than \$100. Go to your local Chamber of Commerce, ask for a list of website developers, call each one and ask them if they have WordPress experience, and see if they will perform website evaluations for you upon request at their hourly rate or at a fixed fee.

So, that will work for a website that has features: product pages, a contact form for leads, a listing of every business in a city, a business website, etc. The seller is claiming some set of features and benefits, and you can provide that list directly to your consultant to verify.

Now, if the user claims revenue from the site and is selling you the website on a multiple of revenue, -- my site earns \$1,000 of profit per month and I think a 12x multiple of profit is fair because you'll break even in 12 months -- you need to verify the revenue figures. Drive to their office, have them open their Google AdSense account live, and show you -- to your satisfaction -- that the revenue gathered from the site is what they represented. Or if you live in different areas, do a screen share but have the seller walk you through from sign in to revenue report (this is not as good as reviewing in person, and provides more risk). It's too easy to fake screen shots, and if they live in a different country you likely have little recourse to file a legal claim.

Most websites nowadays take advantage of Google Analytics, which is a free analytical software system for measuring site traffic. It is possible for the seller to grant you full read access to any website (<http://www.boxcarmarketing.com/blog/item/how-to-give-users-access-to-google-analytics-reports/>). Doing so will allow you to verify statistics to your satisfaction; and the owner can transfer an analytics account to you upon purchase too (<http://www.quora.com/Google-Analytics/How-do-I-transfer-one-Google-Analytics-account-to-another/answer/Shay-Sharon>).

Go watch Thomas Smale's interview about flipping websites to learn more about buying websites on multiples of revenue or profit (<http://www.domainsherpa.com/thomas-smale-flippingenterprises-interview/>).

How to complete due diligence for a website?

For a full website and operating business, consult an attorney. They'll guide you through the 12 areas requiring evaluation:

1. Accounting
2. Technology
3. Financial
4. Political
5. Legal
6. Commercial
7. Competition
8. Marketing
9. Historical Financial Statements

10. Financial Projections
11. Operating Data
12. Litigation Exposure

If you're just buying a website without revenue, things become simpler:

1. What is the authority of the website using Google's PageRank (<http://www.fastpagerank.com/>) or SEOMoz Rank (<http://www.seomoz.org/rank-tracker/>)?
2. How many pages are indexed in Google (<https://www.google.com/search?q=site%3Adomainsherpa.com>) and Bing (<http://www.bing.com/search?q=site%3Adomainsherpa.com>)? (Replace domainsherpa.com with the website's domain name in question)
3. How many inbound links exist from reputable other sites (can be found with MajesticSEO.com)?
4. Verify traffic statistics by accessing their analytics system directly
5. Verify revenue figures by being walked through their revenue tracking system directly
6. Look for long-term, consistent revenue

A single or two-months worth of revenue is not a business. 12 months of revenue shows consistency in earnings, and is a track record you can base a multiple for purchase on.

7. Look at the terms and conditions of any purchased software, such as website themes, templates, software and images. Sometimes they're not transferrable in a sale, which might require you to purchase a license to continue use them.

8. Is all the content (text, images, videos, audio) on the website owned by the seller?

I once bought a website template from TemplateMonster.com, used it for years, and only then found out years later that a specific picture in the template was used without permission of the owner. If memory serves me, it cost hundreds of dollars to buy the rights of that graphic for the past years use.

9. Consider over reliance on suppliers

If 90% of the website's traffic comes from Google organic search, might an update to Google search engine rankings remove most of the site traffic?

What if Google AdSense suddenly blocks the ads you're displaying, can you find an alternate provider of advertising to generate revenue?

10. Is sensitive user information stored properly, encrypted when necessary
11. is the seller artificially inflating rankings through aggressive SEO?
12. Is the programming of the site badly written or poorly documented?

Finally, consider who is selling the website:

1. Are they a trusted entity?

- Do they have a professional website, with matching email address to domain name?
- Can you call and speak to someone in customer service?
- Are they members of the Better Business Bureau or local Chamber of Commerce?
- Do they have real testimonials from customers with full names and website URLs?
- When you ask for a list of references and call them; do they say they'll buy from the website creator again in the future?
- Is there a verified physical address on their website? Call the USPS in their city and verify, or use Google Maps street view to see if it's a physical location or just a mailbox.
- Do they have a complete LinkedIn profile with multiple recommendations from other people?

2. Do they have credentials to back up their claims?

If they say they are experts in X (e.g., SEO, website creation, conversion rate optimization), ask them for proof. What generic keywords can you type into Google and see them listed in the top 10 results? Anyone can rank well for their company name. You want proof that they can rank well for competitive, generic keyword phrases or long-tail keyword phrases.

3. What is their policy for payment?

If you can buy on credit card, your credit card provider might have fraud protection. Again, contact your credit card company to verify. If the seller requires a wire transfer of full funds prior to delivery of the website, consider that a red flag. How much are you willing to lose...anything higher than that should be transacted through escrow.

Again, we have published an article about the domain name escrow process (<http://www.domainsherpa.com/how-does-domain-name-escrow-work/>), and have conducted an interview with Brandon Abbey, CEO of Escrow.com (<http://www.domainsherpa.com/brandon-abbey-escrow-interview/>). Read and

watch those resources to become more knowledgeable on the topics. Escrow.com, for example, will handle website escrow too. And remember, escrow can have milestones -- 25% upon transfer of the website, 50% upon verification of possession by the buyer, and the final 25% upon walk-through and hand-off of the owner's manual, for instance. Once the seller has your cash, the immediacy of satisfying your requirements lessens -- try to hold 50% until you're fully satisfied with the work.

Did I mention that I think attorneys are useful? They are. A few hundred dollars spent today can save you thousands tomorrow. Don't think you can afford a few hundred dollars, then you shouldn't be spending a few thousand on a website. Think of it this way -- a purchase agreement can potentially be used over and over again, so you can amortize it over the life of your business, not just the one website.

Ok, finally, let's talk about website service due diligence.

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### 3. Service Due Diligence

Some service providers over promise and under deliver. It's your job in service due diligence to determine if the company or individual you're considering working with is one of those types.

How do you do that?

#### 1. Are they a trusted entity?

- Do they have a professional website, with matching email address to domain name?
- Can you call and speak to someone in customer service?
- Are they members of the Better Business Bureau or local Chamber of Commerce?
- Do you know someone that has used them in the past and can vouch for them?
- Do they have real testimonials from customers with full names and website URLs?
- When you ask for a list of references and call them; do they say they'll buy from the website service provider again in the future?

- Is there a verified address on their website? Call the USPS in their city and verify, or use Google Maps street view to see if it's a physical location or just a mailbox.

- Do they have a complete LinkedIn profile with multiple recommendations from other people?

2. Do they have credentials to back up their claims?

If they say they are experts in search engine optimization, what words or phrases do they rank in the top 10 on Google for their own website? Think about what they tell you, is it reasonable? Not sure, go on DNForum.com and ask other developers or domain investors or go to local WordPress or website Meetups and network, ask people what they think. Get a second opinion.

3. What is their policy for payment?

If you can buy on credit card, your credit card provider might have fraud protection. Again, contact your credit card company to verify. If they require a wire transfer of full funds prior to starting work, consider that a red flag.

Third-party freelancer websites like Elance.com, Freelancer.com or Odesk.com offer escrow through their service for work contracted through their service. You deposit funds, agree to payment terms (say, 50% upfront and 50% upon completion), and funds are transferred if both buyer and seller agree that a milestone has been reached. You can always require a contractor to sign up as a provider, then hire them through one of these services so you can take advantage of the website's escrow process. Or, document the timeline, milestones and deliverables and agree to use a certified attorney who can hold the money in a trust account -- they'll likely do that for a couple hundred dollars, which is well worth the investment for services in the thousands of dollars range.

How do you set proper milestones for your agreement? Make sure they're SMART goals (specific, measurable, attainable, relevant and time-bound). I'll put a link to the Wikipedia page on SMART goals for further reference ([http://en.wikipedia.org/wiki/SMART\\_criteria](http://en.wikipedia.org/wiki/SMART_criteria)).

So, that's it for due diligence on the purchase of domain names, prebuilt websites and website services.

Oh, did I mention that an attorney can help protect you from being taken advantage of? They can. There's a great one listed as a sponsor of

## **DomainSherpa.com: The Domain Name Authority**

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DomainSherpa -- I use him, you can trust him, and he's likely going to be able to do what you need faster than your family attorney can because he specializes in intellectual property law and has drafted thousands of agreements in the past, just like the ones you are going to need in the future.

This isn't a promotional video for David Weslow, it's a video to educate you on red flags in due diligence and to stop you from getting taken advantage of and wasting your money -- but we all need an extra pair of eyes sometimes, a partner or a confidant now and again to verify our thinking is justified.

If you have questions about due diligence in buying domain names, prebuilt websites or website services, please post them in the comments below and I'll answer them to the best of my ability. If you have suggestions for due diligence that I didn't mention -- techniques that you use -- please also post them in the comments below.

Thanks for watching. We'll see you next time.

**Watch the full video at:**

<http://www.domainsherpa.com/due-diligence-domains-websites-services/>