

Institutional Investment Opportunities in Domain Names - With Frank Michlick

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The new top-level domains launching later this year, and for the next few years, creates a unique investment opportunity. So, it is no surprise that Private Equity and Venture Capital Firms are evaluating the new gTLDs and Registrars. We are going to talk to one of the consultants helping investors outside the domain name industry understand this opportunity, and we are going to learn a few things in the process. Stay tuned.

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: 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 entrepreneur and investor directly from the experts.

Many domain name investors look at the new top-level domains being launched late 2013, and for the next few years, and are not impressed. They remember being burned by buying tens or hundreds of worthless .MOBI or .INFO domains. But what they do not realize is that, of the more than fourteen hundred new top-level domain applications, many will make a significant return on their investment, regardless of whether domain name investors think it is a successful top-level domain.

So, today we are joined by Frank Michlick, Founder and Consultant at DomainCocoon.com. Frank is a domain name industry veteran, a technologist, and Co-Founder, with Adam Strong, of DomainNameNews.com. Frank, welcome to the show.

Frank Michlick: Well, thank you, Michael, for having me.

Michael: Frank, how much interest is there in investment in the domain name industry today?

Frank: Well, that is hard to tell because I do not think everybody necessarily ends up coming to me. But I am listed on some sites to elicit consulting calls for people that want to learn about the specific industry, so I think, in average, there is maybe like twelve calls a year or something like that. It is not a huge amount, but I guess there is not that many people running around with lots of money in their pockets either. So, it is probably not a bad cut.

Michael: Yeah, but similarly, if you look at DN Journal, Ron Jackson's website, and you evaluate the weekly sales, and you look at the, let's say, billion dollars in aftermarket sales that happen per year roughly - I do not know; maybe it is seven hundred million or somewhere around that order of magnitude -, there is probably two or three times more aftermarket sales of domain names that happen every single year that do not get reported. Wouldn't you say?

Frank: Of course, yeah. So, I guess there are, of course, investments happening as well that we do not know about and people that would not talk to anybody, but yeah, you are right.

Michael: Sure. So, we have all heard the Donuts.co and their investment by KKR Silverlake and Technology Crossover Ventures. Do you know of many other Institutional investments of this order of magnitude within the domain name industry?

Frank: Well, I would not really be able to mention anybody that is not public, but I mean there is certainly other (Unclear 3:04.6) go to the investment that happened. Or even further back in time, if you look at maybe not a good example, but Internet Real Estate Group.

Michael: (Unclear 3:16.6). Yeah, I cannot remember what the acronym stands for either.

Frank: Yeah, I tend to mix them up with the guys in Boston, so I am trying to be careful not to do that.

Michael: Right. Okay, so there has been some Institutional investment in the past, and I think a lot of people do look at it from time to time. And so, that is going to be today's focus. We are going to dig down deep into more than just single domain name investors, but why a fund or why a private equity group might consider investing in the domain name industry, and what they might invest in. And we are going to dig into those details. But I always like to take a step back, Frank, as you know. I briefly discussed your background as a technologist. How did you first get into the domain name industry?

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Frank: Well, I did register my first name back - when was it - 1995, I think. Actually, like students, we were programming websites on the site, so we needed a company name for that and the website of course. So, I had to learn what does it take to register websites, what the heck are name servers, and so on. So, we learned all of that back then. And probably was not registering the right names, looking back, but that is just how it goes.

Michael: You look back and kick yourself for not registering some generic keyword category-defining domain names?

Frank: Yeah, we were all coming up with these nice fantasy names that looked good.

Michael: Do you remember what your very first domain name registered was?

Frank: Well, this company was called CyberTeam.com, so that is the name. I actually have a few offers in between for the name, but you are personally attached to it. I actually still think the corporate identity and the design that went with it was really good, so I did not really feel like letting it go.

Michael: Yeah. So you still own it to this day.

Frank: Yeah. Actually, now it is in my company. There is not much left from the original company. We were like five Co-Founders, so that was a big group of people to start with.

Michael: Yeah, CyberTeam.com. And back in 1995, did you actually have to fill out the paperwork and mail it in or fax it in?

Frank: I believe, at that point, there was a web form to fill out, but you did get the invoice in the mail afterwards.

Michael: Yeah, excellent.

Frank: Unfortunately, I did not keep that paperwork either from Network Solutions back then. That would be nice thing to have.

Michael: That would be a nice thing to frame on the wall. How many domain names do you currently own today, and how do they shake out by top-level domain?

Frank: In the company, we have about one thousand and one hundred domains. Most of them would probably be .COM. There is a larger group of .CAs naturally because I am located in Canada. Not that many .DEs; because of my background, I actually would probably be expecting more, but that is a big space overrun with lots of investors already. When new TLDs launch, like .ES, we launched the second registration; I had like a few names that we registered. And a bunch of them sold, by now, in like a five-year frame. So, that is sort of it. I do not consider myself a usually successful domain investor really, but we are not after parking money or traffic names generally. We are not after parking and traffic names so much generally. The majority of names are like things that I sort of know about or that I am interested in, or that have to do with what our company does with (Unclear 6:39.3) mainly.

Michael: So what would be two or three of your best domains, or your favorite domains, not including DomainCocoon or CyberTeam.com? What other domains do you have that you are proud of?

Frank: Actually, DomainCocoon is a really bad name. Most people do not know how to spell cocoon I notice. So, that is why I had to buy a bunch of typos of it. It does not pass the phone test. I tell other people about it all the time. But yeah, I do not know. Back then, one of the other favorite domains that was registered back then was really Rules.org. It really makes for a nice play with subdomains and so on. Even now, I am still toying with the idea to set up like a Wiki for Soccer.Rules.org.

Michael: Oh, yeah.

Frank: I do not know. I do not think the other domains are that great. There is one adult-related domain that is a German word in the .ORG, and where the .COM actually sold last year. So, I am trying to maybe follow-up on that, but we will see how that goes.

Michael: Got you. All right. And are you investing in, or do you hold a stake in, any of the new gTLDs that are coming out soon?

Frank: No, not really. DomainCocoon, as a company, certainly sees an opportunity to consult some of the new registries. And we were talking about new opportunities, but there is no actual investment in that space, or where we own shares, or I own shares, or anything like that.

Michael: Okay, so you are speaking completely from an unbiased perspective. You are not going to mention one gTLD over another and say: 'Oh, I am definitely a fan of .ECO,' and, in the background, you have got a small stake in .ECO.

Frank: No. I would not say unbiased. I certainly have an opinion about a lot of things.

Michael: Oh, good. We want to know that opinion.

Frank: That does not mean that I am right about it.

Michael: So, let's start with a fictitious scenario. You are called by a Private Equity Company. Some company calls you or sends you an email and they have a bunch of initials in their name. And you give them a call back and they want to bring you on to do some consulting about the gTLDs. One of the first questions they are going to ask you most likely, Frank, is: explain the gTLDs to our partners. How do you explain the opportunity that will be coming out in the upcoming years?

Frank: Well, actually, I even sometimes take a step even further back and say: "So, what does the space look like? Who is earning money in this space and where is the majority of the money made?"

Michael: Okay, let's start there. How does the space look?

Frank: So, I actually had investors too, or I have talked to people too, that are not necessarily interested in the new gTLD space, but often the space in general; so that is why I would start with that. Actually, back from the days

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when I used to work at (Unclear 9:23.1), we still have like a list of - they used to call it - the five R's. Somebody marketing it that used to work came up with that. So it is not really quite accurate for how I like to explain it, but five R's is the Regulator, which is ICANN. You have the Registry, which is VeriSign or NewStar, or other companies like that; Affilias. Then you have the next level, which is the Registrar, and then the Reseller, because, in the (Unclear 9:54.3) scenario, the reseller was a very important component obviously. Not really recognized by ICANN. And the fifth part is the Registrant; the one who owns the domain. And today, of course, when I talk about it, I cannot leave the aftermarket out, but I have not come up with a term that starts with R for the aftermarket yet. So, I do not know. It is, of course, which near and dear to my heart as well.

Michael: Definitely. All right, so we have got the five R's and then, somehow related to the aftermarket also. Of those six different buckets of the ecosystem, who makes the most amount of money, Frank?

Frank: Well, we cannot really count ICANN. That is a not-for-profit.

Michael: Today it is. Who knows what it will be tomorrow. So, you are saying that ICANN makes the most amount of money.

Frank: Well, I would not be saying that directly. I guess we have to look at the public reports again for that. Their salaries certainly are not bad, so I guess there is some money being made and they are holding a lot of money too for a not-for-profit at the moment, if you look at the application fees for the new gTLDs. And then, of course, the registries certainly make more money with domains itself than the registrars do. And that is sort of the part where some people are surprised that are new to the industry that are just saying: "What do mean my margin is like this low on the registrar site," but the registry site might have much higher margin. It is interesting, in any case, to say the least.

Michael: Yeah.

Frank: So, that is why registrars need to upsell all the time too.

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Michael: Right. Okay, so we have got ICANN, who regulates the whole system. We have got the registries, like VeriSign, that oversee certain top-level domains. We have got registrars, like GoDaddy, that work through VeriSign to get access to the domain names to sell them. So, they are like the retailers. You have resellers. So, those are like partners to registrars.

Frank: Yeah, affiliates. Like hosting companies. A lot of hosting companies would be in that setup, for example.

Michael: So, in some cases, they will actually do the branding and sell the domain names, and just use the backend of GoDaddy. So they make a commission or an affiliate revenue stream off of the registrars. And then, registrants, like myself, who buy DomainSherpa.com.

Frank: Exactly.

Michael: I pay it and, of course, the aftermarket, if I were to then sell the domain name. So, we have heard a lot about GoDaddy and how they have razor thin margins on the domain name sales themselves, but then they make up a majority of their revenue and profits by selling hosting and everything else that they sell. They have got a million different things.

Frank: GoDaddy even charges for the high-level domain parking. One of the few parking providers.

Michael: Yeah, i heard that they actually recently bought an accounting system for small businesses. So, they are basically looking at the entire lifecycle of a small business and trying to serve every single portion of those.

Frank: And even more recently, a mobile website building company sort of, I think. I did not actually look at that yet, but M.dot or something like that.

Michael: Yeah, M.dot. Okay. So, is that kind of the overview that you give? Do you give any magnitude around the revenue produced in each of those categories or buckets for the industry?

Frank: Generally, I am not being asked about that, I guess, because a lot of that information, at least for the public companies, can be looked up. So, that is not something I look at. I like to look at things from a whole picture, but I am not necessarily a finance guy. So, I am coming from the technical side and trying to see what does attract users and how is need for domain names developing over the future. And all of that is prediction anyway, so I do not know what is going to happen exactly.

Michael: Right. What kind of trends do you see in the registrar area? I believe that there was an announcement last week that some registrar bought another registrar. Wasn't that the case?

Frank: In the last week, I do not remember seeing that. I remember Name.com was being bought by Demand Media, for example.

Michael: That is it. That was a couple weeks ago.

Frank: Last biggest purchase, for sure.

Michael: Yeah. Do you see a consolidation in the industry like that, where larger companies are buying smaller resellers or registrars?

Frank: I think that is something that we will continue to see, even in the hosting industry. There is just rumors being posted on some blogs about, for example, Host Europe getting an investment by a large equity company. So, Europe has already bought a bunch of other domain registrars and so on, so there is an interesting consolidation going on, or the biggest companies certainly. Endurance and International Group, out of Boston, that is buying companies and has been buying brands, and sort of integrating all of those.

Michael: All right. So, there is definitely investment in the new top-level domains, and there is investment in the registrar area as well.

Frank: Yes, sorry to go back to the Name.com purchase. So, for Demand Media, that is certainly a real purchase where you can see Demand Media supplying for new gTLDs, and so is their partner company, Donuts. So, you have a lot of gTLDs that need to be brought out to market, so they certainly

have an interest to have. Name.com is more of an end user registrar than eNom is already owned by Demand Media and eNom is really a reseller channel. So, they are bringing more end users into the company and, by buying the registrar, they certainly have a chance to create a bigger market.

Michael: Yeah, so it is basically a storefront. It is a digital storefront, where they can bring in more end users to sell some of the domain names for the top-level domains that they hopefully will have access to in the future.

Frank: Yeah, I mean Name.com, as a company, is certainly more than just a storefront. And the people I have visited before are certainly great people, but yeah, an addition to the channel for Demand Media sort of. I would see that they are probably seeing it as such. Even though they are saying too that the company will remain a separate company and be run as such, but obviously they might have some wishes regarding new gTLDs.

Michael: Yeah. Okay. So, I understand the landscape of how you explain the industry to potential investors in the marketplace. How do you explain the top-level domains to financial investors?

Frank: Well, basically, I would look at the history of other new TLDs that have been introduced, like .MOBI. Maybe .CO, which was more a CCTLD we launched. Obviously country level domain we launched, but technically also, from a marketing perspective, very interesting how it was done. And probably a good example for new gTLDs; something that they could be doing in their space to launch. And then the companies that are sort of behind them. I mean there is interest in obviously the larger players, but also the people that do not come from the domain space, like Amazon and Google, that certainly have an interesting share of applications that is drawing a lot of controversy lately too with regards to them owning generics, which sort of remind me of domain names too. I mean obviously it is just domain name investing and pull to the next level, through the top level, of the domains.

Michael: So, if you had to name the top three most successful top-level domain launches, regardless of whether it is a CCTLD or gTLD that have been successful, what would you name?

Frank: Oh, that is a tough question. You did not give me that one in advance.

Michael: What? Frank, do not tell my secrets. I do not share any questions with you in advance.

Frank: No, I am just kidding. I do not know. That is a good question. I mean .CO was certainly one of the most recent ones; one that comes to mind. Interesting because also, in the sense of, they did not go for the broad approach. They started with a few select registrars in order to get started and helped market out there to startups and so on, so it was a very interesting approach. But then again, on the other end, you have .MOBI, which certainly is not one of the most successful ones, but they did go out to get people to build mobile sites and so on. The approach was good. Probably the timing was not good because it took too long to launch. Not necessarily at their own fault, but it is hard.

Michael: Yeah, it is interesting. And there is a new Application for .MOBILE. So, .MOBI, individual investors would argue that it was a failure because they cannot resell them. So, if you look at the aftermarket, they look at it and say: "It is a failure because I cannot resell my investment." But the registry is saying: "Hey, it was successful. Look at how many domain names we sold in the first year."

Frank: Yeah, I do not have the numbers off the top of my head, but I mean obviously the registry can make a profit already, even when it is not. Like you were saying initially, in your introduction, it is not necessarily a profit for the investors, but there can be a profit for the registry already at like, let's say, two hundred thousand domains or something like that; especially if the company runs other TLDs as well.

Michael: Yeah, exactly. One that comes to my mind. I have had Stuart Lawley on here, talking about the .XXX top-level domain. And it seems like they are doing phenomenal. They hit a profit margin. They are looking at new ways to expand out and build off of that top-level domain with their own wallet payment system and their own search engine, and a lot of great ideas.

Frank: Yeah, they had to fight hard to get that TLD too; and ultimately that is probably where a lot of the money went initially. So it is good if they were able to recoup that. Obviously not all the numbers there are public, so there is some numbers that came out with regards to how much went to the fund for donation to (Unclear 19:51.6), but I am not sure. IFFOR. I am not sure exactly how these guys are pronounced. Of course I am looking at numbers like that and trying to see how did they do it and what did they do right, but it is very specialized too of course. It does not necessarily apply to everybody else.

Michael: Yeah. What about .ME? They were recently re-launched.

Frank: Yeah, they were certainly very successful too, and are still, because they were comparable actually to .CO, but in a broader approach. .CO had a higher price level too initially, so .ME came in at a bit of a lower price level. So, affiliates operate the backend there, for example, but they started on a broader range. They work with more registrars and certainly have a big appeal to individuals and so on. So, they did a whole lot of marketing in the startup world as well. For example, they incorporated. I think WordPress is using WP.me as a short, so that obviously is a great win sort of to get public visibility. Now, we have one thousand or, let's say, two hundred something TLD launches. The latest data apparently, from Fadi, from the CEO of ICANN, that he announced is actually that he is looking to switch or sign the first contract like in April, which surprises me because I was thinking we were more getting into the next year already.

Michael: Yeah.

Frank: Let's say we switch two hundred (Unclear 21:16.3) this year, or one hundred even, how is everybody going to create the same visibility? That is certainly a big challenge.

Michael: Yeah, definitely.

Frank: Or does everybody even want to do that? That is the other part.

Michael: Yeah. So, let's say that Fadi does sign the first contract, and so the first TLDs get online this year. How long will investment opportunities last? Is there a specific window for investment in top-level domains? Or do you think that a top-level domain may launch this year, but may still be an investment opportunity two years from now?

Frank: Well, are we looking at investing in domains - buying domains in the space - or are we looking at actually the people that invest in the companies running the TLDs?

Michael: People that invest in the companies. So, we are looking at Institutional Private Equity-type investment.

Frank: Yeah, I would definitely look more like not at a hedge fund return, where you get a quick return, but rather try to have a horizon of three to five years, or something like that, because the initial investments, to some extent, can be quite high; especially on the marketing side. That is sort of the part that it is hard to cost out at this point, because we do not know how much it will actually cost to get registrars to integrate the new TLDs. And I do think that there is significant loss there. And for us, as a technical consultant, we actually see a good opportunity there too to get a piece of that business. So, I think it should be viewed with a three to five-year horizon rather than like let's get my money back after a year or something like that. Even though the biggest money is probably in the sunrise phase too initially, like in the trademark phase.

Michael: Yeah. So, the biggest return is in the sunrise phase; not necessarily in renewals, which registries may see a drop-off in their renewal rates. People are claim stakers. They want to get in early. They want to claim some domain names. And they may pay off or they may not pay off. And if they do not, then people may not continue to renew them.

Frank: That is right. Like average renewal rates are still above or around seventy percent, if you look across all TLDs at the moment. So, if we add a lot of new TLDs to that, I generally would probably expect a smaller drop, but it is really too early to tell obviously.

Michael: Yeah. So, besides hundreds of top-level domains becoming available, trying to get integrated into certain registrars and doing marketing with many top-level domains fighting for a share of attention, what other factors add to the risk of an investment in a top-level domain?

Frank: Well, I think you have the main adaptation. Of course, right now, we are still in a phase where we do not even know which top-level domains may be challenged. To some extent, we had a legal channel for .WEB, for example, or that sort of was dismissed by the court recently. So, it is going to be interesting to see if there is more legal challenges from people that were operating alternative TLDs before and other name server systems. And I do not know. There might still be some sort of challenges that we are not expecting. Or like we are seeing, right now, challenges against Amazon and Google and so on owning generic domains, like Amazon, for example, owning .BOOK or .BOOKS. Do you really want them not to give this to anybody else?

Michael: Right. So, I am hearing what you are saying and speaking to some of the other interviews that I have done in the past that, if a company has put in an application for a top-level domain and there are, say, three other competing applications, one of the factors may come in is that whoever has the biggest war chest may actually end up owning the domain. So, it sounds like there might still be opportunities throughout the application process or throughout the negotiation process of trying to resolve these conflicts around top-level domains. There might be an opportunity for investors to come in and help sway who gets that.

Frank: Yeah, there is a number of different scenarios. So, the people can agree joining or getting rid of their application - overthrowing the application - before the actual ICANN Auction sort of is set to happen, where ICANN is trying to auction off the rights to some of the TLDs. And I guess, for the applicants, it certainly better to try to resolve everything outside of ICANN. Most likely, if they can. I mean potentially some applicants may have even used this whole part of their strategy obviously. Maybe that is their way to cash out by just selling the application rights.

Michael: Yeah. How does an investor know if they are buying into a .MOBI or a .CO? How do they know? What counsel do you provide to them to try and figure out which top-level domains are going to be winners versus runners-up?

Frank: Well, I try to keep most of the advice to the general level. I do not want to be nailed down afterwards for giving wrong advice either obviously. But your example is an interesting example because I think .MOBI did a lot of things too by trying to get newspapers and so on to build more mobile sites on the .MOBI, but I think the problem was really the time to market it in this case. So, that they were coming later than the .MOBI should have been there. Everybody sort of had established a solution already. And of course, you do not really need a separate domain to tell if the site is for mobile. I mean mobile traffic is increasing and I think we are still seeing people not doing that properly, but obviously, in separate TLD, top-level does not really need it.

Michael: Right. And I sort of bring that up as an example that it is a flawed business model. You do not necessarily need a separate URL to show that it is a mobile site. Today we have responsive websites that responsively display for your iPhone versus your desktop computer.

Frank: Yeah, that is ultimately what should be happening, of course, because the user should not really be going to different sites. So, I think, in that sense, it is a good example where they failed, but the team was great too that put everything together. Or look even further back. .NAME is another example, where the idea was to register your last name and you get an email address from the registry. That whole email address part sort of fell under the table and is not being done that much anymore. I am still waiting for seeing actually a new innovative model with the new TLDs. I think there is a lot of room for new plays and I give credit. Look at .TEL, for example. I give I lot of credit to them for what they tried. They may not have succeeded in numbers in comparison to some of the other TLDs, but they certainly tried to innovate.

Michael: And tell me, because most people watching this probably have never heard of the .TEL top-level domain. So, tell me about that. Why do you think it was innovative?

Frank: Well, .TEL actually was about building directories under the domains sort of to summarize it. Not necessarily what they intended when set out, but basically you get the domain, but you do not get to put anything on the domain. You create your own website under it in a templated system that the registry provides. So, let's say you are a company, you would have a list of all your different offices and locations and so on under there. So the idea was to have the contact points for your company or for your entity listed. So, that is sort of the gist of the idea; and they were also hoping to get like a whole search engine benefit from it, and so on. So, there were some domain investors flocking to that space as well, but it did not turn out to be as popular as people had hoped. I am not sure if the registries still made money in the end.

Michael: Yeah, I understand.

Frank: So it is really hard to predict the advance, but if I were to invest in somebody like that, I would probably ask a lot of questions about the people running it and their strategies and the ideas to do it, and make sure that they have all their bases covered, so to speak, in order to see if they can have a chance at being successful. As you know, not every investment turns out to be successful, so obviously you run some risk anyways.

Michael: Yeah, definitely. KKR Silverlake and Technology Crossover Ventures invested in GoDaddy when GoDaddy decided to sell a majority stake, and then, of course, Bob Parsons, who was the CEO, stepped down and is now Chairman, I think, or somehow involved, but not in the day-to-day operating of the business. Did you consult with any of those three private equity firms in the GoDaddy investment?

Frank: If I did, I would not be allowed to say it.

Michael: All right. So, you are basically under a non-disclosure agreement with anybody that you consult with to not reveal details associated with that consulting?

Frank: Definitely, yes.

Michael: Okay.

Frank: And I would imagine, if I were to talk about it, they would probably not want to come back to me.

Michael: Yeah, very good.

Frank: But it is a really interesting level of conversation sort of, because they look at everything with different eyes. So that is what I like about the conversations. Actually, I am toying with the idea to sort of set up a report as well that could potentially be sold to people like that.

Michael: Well, yeah, I would think that they would want to know, if we put one hundred million dollars in this space, what kind of return on investment might we expect in a three to five-year time horizon.

Frank: Yeah, I probably would not answer that like that, but I think that would be a question they would ask. I mean certainly they handle amounts of money. Some companies handle amounts of money that invest in this space that I think it would be very interesting to get my hands on, but it is very nice to talk to them as well.

Michael: Yeah. And you did mention a three to five-year timeframe for investment; that they would need to stay in the market about that long. How would an investor that comes in with a large sum of money, like fifty or one hundred million or two hundred million, get a liquidity event to try and exit from that investment so that they can place another bet in the future?

Frank: Well, I guess what we have seen in the past is that registries like .NAME or .MOBI were sold, so I think that is sort of the intention for a lot of investors in the space. I do think though that, in the long-term, we are seeing

more investment companies entering the space, like you were mentioning with the GoDaddy investment and so on. So, I do think the potential has been good. I mean we are still a rather small industry; and if you add like the hosting industry to it, I think there is a lot of changes that will come that are kind of important. When I talk about growth, I am not worried and I have to look at it myself too. Where am I going to be in five years? Is this business safe for me to be in? That is sort of something I look at from time to time to make sure that I can support my family and the people that work with me. So, it is always an interesting view in the time horizon. Five years is relatively short actually still, but to say I feel safe here and I think there is going to be enough work. So, obviously I think there is going to be more money coming in. Look at the hosting industry itself and how hosting is sold today. I think it has to change because a lot of people do not understand what that means actually having a website and how much transfer they need, and whatever that means. So I think there is still room for a lot of changes and money to come in here and to be made here too.

Michael: Yeah, definitely. And I experience it as well. We have a local magazine, and a lot of mom-and-pop shops, who are on the web, do not know where their website is. They still have their domain names in their developer's name. The registrant is the developer. And they find it difficult to try and manage their online presence. So, I fully agree with you.

Frank: Yeah, I went to a restaurant here and we actually tried to book a table online; and that did not work, even though it looked like it worked. So, we called and we said, "What happened to the reservation?" They said, "We did not get anything." So I actually went in to talk to the owner afterwards. Not to sell him, but I said, "If you need help with that, it is probably going to take me ten minutes to fix that part. Why not give me a free meal the next time I come or something like that?" So, it is interesting. You can tell that the learning curve is hard.

Michael: It is.

Frank: And it should not be that hard. So, that is the part that we need to work on; to make it easier.

Michael: Yeah, some innovation may drive additional sales in the marketplace.

Frank: Look at the adaption of premium domains everywhere. The majority of people do not know where premium domains are, but GoDaddy wants a Super Bowl commercial and you search for a domain on their site afterwards, and you might see some premium domains offered to you. So, the users are starting to get the hang of it, and certainly GoDaddy is driving a lot of those aftermarket sales in general.

Michael: Definitely. So, if new top-level domains are going to be launched and let's just throw out a random number because nobody knows how many domains are going to come online this year, but let's say one hundred new top-level domains are going to hit the market today, it seems like GoDaddy is sitting in a sweet spot. Everybody wants to get access to GoDaddy's customers. They are the largest registrar in the world. They probably get paid a certain amount of money to highlight a domain name in their registration flow.

Frank: I am sure they do. They should.

Michael: So, registrars may be a good investment opportunity in the future, given that all these new top-level domains are going to need exposure and marketing.

Frank: They are going to need to be (Unclear 35:18.9) them, so look at the top ten registrars and see who is public I guess. I mean, ultimately, that is the key to getting to the users. However, with the lack of removal of the split between registries and registrars, we may see more registries become registrars soon. Maybe there are some new models out there too, where a registry sells directly. I mean coming back to the Network Solutions days or something like that. Not directly, but I mean maybe VeriSign could buy a registrar again or set one up again, for example.

Michael: So tell me about that, Frank. When was the split between registries and registrars removed?

Frank: Well, there was a long ongoing discussion about - I actually forgot what ICANN called the term again, but basically there was a push for registries to also be allowed to sell directly. One of the strong or loudest voices in the discussion was certainly affiliates, which originally, when it was founded, was owned by a bunch of registrars as well. So, basically, for a certain time, registries were not supposed to own a registrar; and the requirement has been effectively removed in the new gTLD Guidebook. So, that is something that I am looking to and seeing what it is going to bring. And obviously, look at brand domains too. They will need to operate their own registrar in order to be able to register their own domains, even if it is just within their own company.

Michael: Yeah. And are the registries generally private companies?

Frank: The majority of them certainly are.

Michael: The majority of them are, right?

Frank: Yeah.

Michael: NewStar is private. Affilias.

Frank: Oh, you mean the registries or registrars?

Michael: The registries.

Frank: Yeah, Affilias is basically private. Then VeriSign is public. NewStar is public. But the other ones, like Tucows Registry, or RES they are called now. The guys from Australia. They are not public, I think. So, yeah, a lot of them. I do not know. The bigger ones certainly. You have some public ones obviously with VeriSign.

Michael: Yeah. So, NewStar and VeriSign are definitely.

Frank: Sorry, I was thinking about registrars before.

Michael: No worries.

Frank: And there certainly the number gets smaller because you only have really Demand Media, Tucows, and probably some others one that I cannot think of at the moment. And they are going to be upset with me afterwards.

Michael: Have you heard of any registries, like VeriSign or NewStar, that are looking to offer their own direct-to-consumer registration?

Frank: No, I do not know anything about that. I mean obviously, if I ran the backend for a new TLD or applied for one myself, it might be. VeriSign certainly has an established channel obviously with all their relationships, and so does NewStar. But if I am a new gTLD applicant, why not go direct to consumer? I mean technically that is something that should be interesting too. But a lot of them are not doing anything right now. They are waiting to see who is going to complain and who is going to content. We are going to have some more Government comments soon. Another round; see how those go. They are all sitting, ready to go, but they do not want to spend the money before they know that they are ready to go, which may actually be a problem too, because I think, for some registrars, it may just take a while to implement new gTLDs - to add them to the system. A lot of the registrars were not built from a technical perspective to actually offer that many TLDs.

Michael: Yeah, definitely. One of the other consulting areas that you focus on, Frank, is consulting for registrars to help them do things like integrate new top-level domains into their offerings. Is that correct?

Frank: Yeah, we will help, for example, a hosting company become ICANN Accredited and set up everything that they need to do there. Help somebody to remain ICANN compliant, which is interesting too, because they are doing a big audit at the moment, or actually, they have done a big audit on all the registrars. And yeah, down to helping registrars to improve their systems, for example, and so on. There is not that many contractors that have been working in the technical space for a long time, so DomainCocoon, as my company, - here is the advertising part - is sort of one of the few development teams out there that sort of has the experience with how to deal with registries, and what the business and ICANN requirements are too.

Michael: Yeah, definitely. One of the things that I thought when we were discussing is the size of the industry, and you mentioned, "Well, the size of the industry, not including hosting," and I think hosting is a big moneymaker for a lot of different registrars out there. But if we looked at just the size of the domain name industry, so we are looking at registries, registrars, resellers, and aftermarket, not including hosting or any of the additional sort of cross-sell and up-sell opportunities, how big would you say the domain name industry is in itself?

Frank: That is really hard to say. I do not know, especially because of the aftermarket, because there are so many underreported sales there as well. So, I mean this is, of course, a question that I ponder often too, and I have not come to a conclusive answer. A few years ago, there were numbers being thrown around, but I do not know if they are still accurate today. Like I said, there is also a lot of money being invested in the space. So, that might change the flow of things.

Michael: If you had to throw out just a swag; just a rough number, you cannot verify - nobody can verify - it is correct, two billion, ten billion?

Frank: Yeah, but people are still going to comment about that. I think I am going to be careful and not say anything at this point.

Michael: You are not even going to give me a number, Frank. Two billion? Ten billion? Order of magnitude.

Frank: Well, the old number that was thrown around a few years ago, because you mentioned it, was like two billion or something like that, but that was more for the domain name space itself. I mean parking certainly has changed a lot over the last three or four years. So, I am hoping we are bigger than that.

Michael: Yeah, and hosting of course.

Frank: Yeah, you cannot count that. The margins in hosting are nice too compared to domain names itself. That is why you are always trying to sell something else with it.

Michael: What are the margins in domain name hosting?

Frank: Well, domain name hosting itself. The cost of running a server is not very high. I mean anybody can buy like a reseller server for twenty dollars a month and put twenty customers on there for twenty dollars a month each. So, you profit on that. But for registrars, the domain name itself is where you are sort of fighting against the margin. Your cost is, well, \$7.50 or whatever, or even in the eight-dollar range, depending on which TLDs you look at and who is allowed to raise prices again. And prices are still increasing, even though technology is getting cheaper, which is really an odd and interesting factor all the time. I think, certainly, you need to sell some sorts of additional services in order to make money or to really work in domain names in volume. And who really does that in big volume and has a big marketshare? It is going to be interesting to see. Maybe there is some new player coming out too. Who knows?

Michael: Yeah. So, anybody that is not familiar with DomainNameNews.com, what can they expect to see if they go there?

Frank: Well, hopefully, some collection of the latest news in the space. At the moment, we are sort of running a bit behind. We are trying to restructure a bit how the site works and how we work, but we try to cover everything that is happening in the domain name industry that is important. Obviously the name sort of implies that. So, it is not really a commentary site or anything like that. We want to cover everything that is in the space, and we will be there again shortly I think.

Michael: Great. So, it is more industry news to keep people up to date; not necessarily commentary - your personal thoughts - about bad customer service at a certain company.

Frank: We may add some. You can also go to DNN.com. It is the shorter version of it.

Michael: DNN.com. Excellent. All right.

Frank: Also, I want to bring back the event calendar that we have. The domain industry itself is an interesting space, and reporting on it helps us to stay on top of what is happening too.

Michael: Yeah, great. And here is the final question, Frank. For the domain name investors - the individual investors - that are listening to this interview and thinking more globally and strategic about the industry, but then, at the end of the day, a lot of them do not have the opportunity to necessarily put a large amount of money into an investment like that and they were going to buy individual domain names. What is your advice on the new top-level domains in making sure that they make wise investments for the few hundred domain names that they may speculate on?

Frank: I am starting to think this could cost me advertisers to answer that question. I think, in general, I am watching the new gTLDs carefully, so here is my own approach sort of to investing. So, I think there is a potential to make money, but I also think people should have an expectation of the time horizon. I mean obviously, so far, in each new TLD that gets registered, there is like a base of, let's say, two hundred thousand to three hundred thousand domains maybe that sort of get registered; generic keywords that may sell or may not sell. So, if you are in that space, you are probably sort in a safer bet. I personally like to do more in CCTLDs. I have done some exploring in that part and would like to do more, but I think the new gTLD space is definitely a space to watch. I do not see it as a threat to sort of people that own .COM names either, because I think, until users actually will get used to the new gTLDs, that will take a while. And in general, the mass of users is certainly not the most adaptive audience and the quickest audience. I am not saying they are stupid or anything.

Michael: Right.

Frank: It just takes time for people to get used to something.

Michael: People are hard to change.

Frank: Yeah, they type in .COM.

Michael: And when you say it is going to take time, what do you estimate the time horizon to be for them to understand what a .ECO is versus a .COM?

Frank: I always expect them to be faster. Actually, we had .MOBI as an example earlier, so look back. In 1997, I think, the first specs for the wireless access protocol (WAP) were written, and then see when actually people were going on the Internet on mobile devices. It was certainly in the 2000s; not in 1990-something. So, I guess a three to five-year horizon, again, seems to be a very safe bet for people to adapt new TLDs. But like I said, the marketing could be aggressive. If you see a lot of brands using their new TLDs and so on, people may get used to it quicker, but like I said, in general, I think they are slow. When you come into this as an investor, you want to make sure that you come into it with a right time horizon. Be it as a domain investor, or somebody who is investing in gTLDs itself, or in the companies, you want to make sure that you are able to hang in there to make your money back; and probably also make sure that you see when it is not a success and you get rid of those names that you invested in.

Michael: Definitely. Frank, if people want to talk to you about potential consulting or contact you directly, is there a preferred Twitter address or is there a preferred email address that you would like to tell them?

Frank: My Twitter account is @FMichlick and my email - the most well known one, or the most interesting one - is i@M.FM.

Michael: i@M.FM. So, Frank Michlick, of course, being the FM. You have your own top-level domain.

Frank: Yeah, right. Not quite. I wish. But when I left Germany to move to Canada, I had to come up with a personal email address, so that is when I registered that single-letter domain.

Michael: Yeah, excellent. Well, that is a fun email address to have.

Frank: Yeah, you have to read it as I am FM.

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Michael: Frank Michlick, Founder and Consultant at DomainCocoon.com. Thank you for coming on the show and helping us understand the investment opportunity of the domain name industry and the new top-level domains, and thanks for being a Domain Sherpa.

Frank: Thank you, Michael, and thanks everybody for listening.

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

Watch the full video at:

<http://www.domainsherpa.com/frank-michlick-domaincocoon-interview/>