

THE NEW GENERIC TOP LEVEL DOMAINS – REAL INNOVATION OR JUST ANOTHER GOLD RUSH?

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Abstract

The internet organisation ICANN authorised an unprecedented expansion of the domain name space in 2011. Domain endings like .photo, .wine, .love, .berlin, .hamburg and .bank are now available for registration. The article tries to determine if this extension does have a positive effect on competition and represents a real innovation. The registration numbers in different domain endings are evaluated. The main finding is that the extension did not lead to substantial innovations – although it offers new innovative domain name combinations. Rather it increased the value and the registration numbers of .com domain names. The new domain extensions have also become a playing field for investors and speculators.

Keywords

Innovation, competition, domain name, internet.

JEL Classification

L10, L86

Introduction

People and organisations that intend to register an internet domain name have made the experience that it is difficult to register a domain name that fits their requirements as the desired one is often already registered by somebody else. Especially, meaningful domain names in the popular domain ending .com – that are not already registered - are hard to find.

The Board of Directors of the internet organisation ICANN (Internet Corporation for Assigned Names and Numbers) authorised the launch of an unequalled domain expansion program in 2011. This expansion has changed the domain market significantly. New domain players have entered the market and the entrenched participants try to maintain their market shares. Also, the new endings offer innovative options for marketers, companies, individuals and organisations. A website with the address www.myname-academy.com is not so concise and easy to remember as a site www.myname.academy.

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Domain names fulfil not only a technical function. They are also traded as an object of value. The purpose of this article is to analyse the development of the market. It will also determine if this large increase in domain extensions is a real innovation or just satisfies the profit seeking of certain stakeholders.

1. The development of the domain market

Domain names represent – from a technical point of view - addresses on the internet. The domain name system (DNS) ensures that servers, PCs and other devices connected to the internet can be reached worldwide. It functions like a telephone book that translates domain names into computer readable, numerical IP addresses (and vice versa).

Besides country specific domain name endings like .de (Germany), .ch (Switzerland) or .ro (Romania), only 22 generic domain extensions like .com, .net, .info, .org or .edu existed until the end of 2013. The rightmost element of a domain name is formally termed Top Level Domain (TLD) – in the case of the web address *www.ase.ro* the TLD is .ro.

In order to extend the domain name space, ICANN opened an application round in January 2012. The extension of the domain name space was seen by ICANN as fostering choice, innovation and competition (ICANN, 2011). The organisation received a total of 1,930 applications for the so-called new generic Top Level Domains (new gTLDs).

ICANN has so far delegated more than 930 new gTLDs (March 2016). A TLD is delegated to a registry (operator) who manages the authoritative database for all registered domain names of its TLD. Not all TLDs are publicly available for registration as some companies applied for so-called brand TLDs that allow the company to register domain names only for its own organisation. Companies like Philips, Jaguar, Audi, SAP and Sony applied for their own brand names as a TLD – e.g. the endings .audi and .philips.

Domain names are not only technical identifiers, but also real estates in the virtual world. In the 1980s and early 1990s the registration numbers were still moderate and many names available for registration (the very first domain name was registered in 1985). Only little by little it developed into a gold rush that led to a still enduring boom for domain names (Huber and Dingeldey, 2004).

The vast enlargement in the number of TLDs could increase especially the value of the domain ending .com. Building more side streets enhances the value of real estate in main streets according to Karl Ulrich of Wharton University (Wharton, 2014).

Amazon applied for 76 and Google for 101 domain extensions respectively. Worries about a domination of the internet market place by a few powerful players in the future have come up as they did not only apply for their brand names like .kindle, .amazon or .google, but also for generic endings like .app, .book, .shop and .movie (Corwin, 2012). Fears exist that Google and Amazon not only dominate ICANN auctions (for TLDs with more than one applicant) with their deep pockets, but also that Google may favour its own domain endings in search results (Corwin, 2012).

According to some experts, the majority of domain names in the new gTLDs were registered by investors and speculators. The domain expert Rick Schwartz estimates that 98% or more of the domain names in the new gTLDs were registered by speculators. He mentions that the ratio concerning .com is different – here, 98% of the domain names were registered by businesses to establish an online presence (Schwartz, 2015).

This would lead to the assumption that the growth in the new domain endings can be attributed to a large extent to speculation and only to a smaller extent to a real acceptance of the new gTLDs.

The hundreds of new gTLDs have also been controversial from the trademark and cybercrime perspective. It is costly for companies to secure and defend their trademarks in hundreds of different TLDs and also governments and law enforcement agencies are alarmed by the additional burden that this large number of new TLDs poses in fighting different cybercrimes (Kruger, 2015).

1.1 Research methodology and goals

Scientific literature about the internet domain name business is very rare and mainly focused on ICANN's governance and policy issues. The topics of competition and regulation in the domain name business are mainly discussed in articles outside the academic sphere.

The registration numbers in several TLDs were analysed from different angles. The percentage of parked domains was also taken into account. It will indicate inter alia how many websites are active and is an indicator of possible speculations in the new gTLDs. The first new gTLDs were introduced in 2014. Therefore, the long-term effects cannot be appraised yet. However, some trends are visible.

1.2 Results

Undoubtedly, the expansion of the domain name space led to a wider choice in domain extensions. New gTLDs like .mba, .coffee, .photo, .webcam, .shop, .love, .tickets, .news, .legal, .management etc. offer innovative and creative possibilities for marketers, businesses and individuals.

If the domain name policies of "sensitive" TLDs (e.g. .bank or .tickets) are restrictive, it can increase the security of transactions on the internet. If only verified banks are allowed to register a .bank domain, consumers could be relatively sure to reach only a bank – and not a site that pretends to be a bank. But this tight regulation usually involves that the registration numbers in this TLD will be low as the number of banks is limited. The prices for these gTLDs are generally higher due to the extra security layer and the reduced economies of scale (although economies of scope might exist if the same registry offers also domain name registrations in other TLDs).

Nevertheless, businesses might have problems finding suitable domain names as many of the popular ones are often already registered in the new gTLDs soon after they become generally available. Out of the 15.6 million domain names registered in the new gTLDs, 75% were parked on 8 March 2016 (nTLDstats, 2016). These domain names are not in active use. Reasons for this can be manifold. The domain registrant might keep the domain for a later project or tries to earn money by placing ads on websites with his domain name. However, it can be suspected that many of these domain names were registered by speculators and investors who intend to sell or more generally monetise their assets.

The graph below (fig. no.1) displays that the boom for .com domain names does not show any signs of a downswing. On the contrary, .com became now of interest especially for Chinese investors which even urged VeriSign to warn investors in a filing to the US Securities and Exchange Commission in November 2015 (VeriSign, 2015).

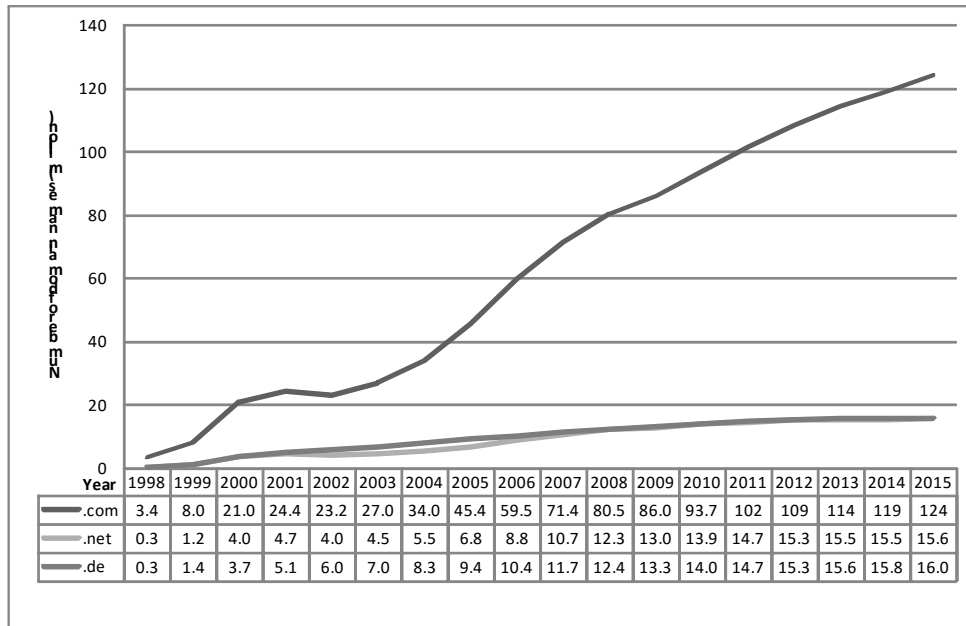


Figure no. 1 Development in the number of .com, .net and .de domain names[†]

Source: for .com and .net: ICANN (2001-2015) and Zooknic (1998-2000); for .de: DENIC (1998-2015)

As can be seen, domain endings like .de or .net have experienced a more sound and organic growth, grow quite in parallel and enjoy similar registration numbers.

The introduction of new domain endings could so far not stop this boom in .com domain names. It supports the assumption of Karl Ulrich that the new domain endings even increased the value of .com (Wharton, 2014).

On 31 October 2015, 123.8 million .com domain names had been registered. The dimension of .com in comparison to the other domain endings is shown in fig. no. 2. It is visible that the .com domain ending is far ahead of any other TLD. The .tk domain (on second place) is only that prominent as the majority of these domain names were registered free of charge and therefore cannot be taken as a relevant reference. The only new gTLD that was able to reach the Top 20 table so far is the TLD .xyz.

[†] The .com and .net figures for 1998-2000 are based on data of the following year (early January), all 2015 figures are based on 31 October 2015.

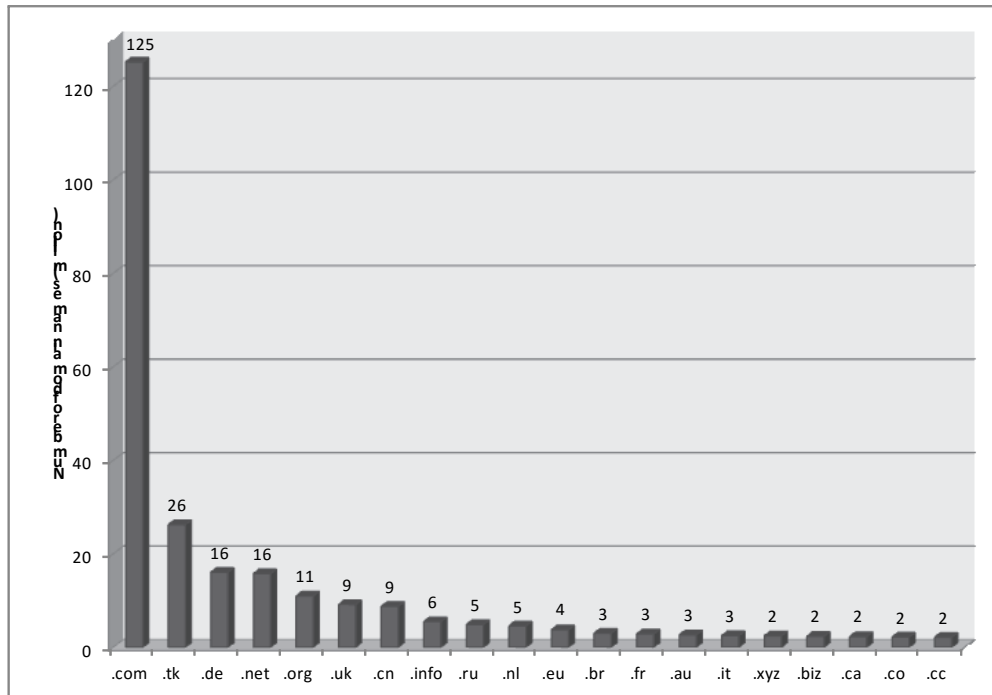


Figure no. 2 TOP 20 TLDs overall[‡]
Source: Domaintools.com, 2016

The registration numbers in the TOP 20 new gTLDs are shown below (table no.1). The .xyz domain ending is the current leader. Many domain registrars ran campaigns and provided promotional offers for .xyz. Therefore, the figures have to be treated with care as it needs to be seen how the registration numbers will develop once the registrants have to pay the “full” price without any promotional discount (domain names are usually paid for on a yearly basis). The case of .berlin displays that the first euphoria can vanish quickly. The general availability of .berlin started in March 2014. In the first hours after .berlin was generally available about 30,000 domain names were registered. In December 2014, .berlin reached 155,200 domain names – also with the help of promotional offers. On 30 November 2015 this number had dropped to about 58,000 domain names (ICANN, 2015).

[‡] Data as of 22 February 2016.

Table no. 1 TOP 20 New gTLDs §) **)

No.	TLD	Domains	Share
1	.xyz	2,554,008	18.0%
2	.top	1,584,375	11.2%
3	.win	774,218	5.5%
4	.club	715,886	5.1%
5	.wang	649,870	4.6%
6	.网址	346,276	2.4%
7	.science	342,346	2.4%
8	.bid	295,471	2.1%
9	.red	285,086	2.0%
10	.link	284,684	2.0%
11	.ren	240,512	1.7%
12	.party	228,166	1.6%
13	.click	204,421	1.4%
14	.online	180,421	1.3%
15	.loan	176,254	1.2%
16	.website	156,540	1.1%
17	.date	143,588	1.0%
18	.site	139,474	1.0%
19	.space	132,624	0.9%
20	.work	101,436	0.7%

Source: ntlstats.com, 2016

The goals of companies like Amazon and Google are not obvious yet. Google managed for example to gain the domain ending .app for USD 25,001,000 during an ICANN auction. Amazon acquired the TLD .buy for USD 4,588,888 and the TLD .spot for USD 2,200,000 (ICANN, 2016). Auctions have been used by ICANN as a last resort in the case that several equally eligible applicants exist for one domain ending that could not reach an agreement among each other.

Conclusion

The new gTLDs provide innovative and more target-oriented domain extensions for marketers, businesses and individuals. Nevertheless, the .com TLD is still THE domain name extension. The registration numbers for .com domain names still rise significantly despite the fact that many meaningful names are already registered. VeriSign as the registry for .com domain names is still dominant on the market and possesses market power. Currently, no other TLD is able to threaten VeriSign's position in .com. ICANN also does not seem to hold any intent to regulate the market in order to bridle any significant market power.

§ “网址” stands for web address or website in Chinese.

** Data as of 23 February 2016.

The numbers in many new gTLDs seem to be inflated. Investors were eager to register domain names in the new domain endings. Sales promotions in the new domain extensions supported this trend. Several new gTLDs like .berlin have already experienced a downward trend. For some TLDs/ registries it will be hard to break even and to survive. It can be expected that the market will consolidate. Larger registries will take over smaller ones.

Overall, the new gTLDs are no real innovation and also did not lead to an increased competitive pressure for VeriSign so far. The pressure to introduce the new gTLDs came inter alia from stakeholders that were interested to make a fortune. In this sense the introduction has been like a virtual gold rush. It needs to be seen how the long-term development will be for the new gTLDs and who will be the winners and losers in the market.

It is up to further research to determine the nature of the parked domain names. Are they mainly registered by speculators or by businesses and individuals keeping them for a later project?

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