

June 9, 2007

B.C.'s masters of their domain

By Nathan Vanderklippe | Financial Post

To those not in their tight circle or familiar with the hidden underpinnings of the online world, British Columbia's domainers are the anonymous nouveau riche. They have none of the star power of their real-world brethren, the Donald Trumps and fellow billionaire property developers whose dealings the world follows with tabloid interest.

But over the past decade, they have quietly made Southern B.C. into the world's Internet ownership capital, a sort of virtual Manhattan that is home to some of earth's most valuable addresses. One, who lives in Vancouver, owns god.com, a name so lucrative one fellow domainer said "everybody on Earth" will visit it at one time or another.

A Penticton man owns virus.com, whose value to both the pharmaceutical and software worlds makes it nearly as valuable as a Park Avenue penthouse in New York. Another owns a swollen bank account, after selling his portfolio of 100,000 addresses for US\$164-million.

Altogether, B.C.'s Internet owners are worth at least US\$1-billion, estimates Jay Westerdal, the president and chief executive of online research firm Name Intelligence Inc.

And that number is flying higher every year as the value of Internet addresses soars. The best now trade for eight figures: Witnesssex.com, which last year sold for about US\$12-million; and poker.com, which is for sale for about US\$20-million.

So what brings so many domainers to Vancouver? "I think it's something in the water there," Mr. Westerdal said.

Or "it might be just a fluke," said Gary Chernoff, the man who owns virus.com, as well as jet.com and enough others he won't admit to that allow him to afford four hectares of waterfront property on Lake Okanagan. "Or maybe it's the longer seasons. We're indoors more."

Either way, he and a handful of other local domainers -- so called because the names they own, such as virus.com, are called "domains" -- have together been among the world's lead prospectors in what has become an online advertising bonanza. Their control over some of the Internet's best names also gives them extraordinary control over the online world, making them, in a sense, masters of the Internet.

The wealthiest of them all is a man named Kevin Ham, a medical doctor and devout Christian whose portfolio of 300,000 names -- including god.com and satan.com -- is estimated at

US\$300-million. He is the godfather of domainers, a controversial figure who is nonetheless revered for his virtually unparalleled knack at acquiring stellar names.

At the heart of a domainer's profitability is the potency of generic, non-trademarked names. Take, for example, attorney.com or laptop.com -- both owned by Dr. Ham's company Reinvent Technology. An Internet user looking for one of those services -- a lawyer or a new computer -- might skip typing the term into a search engine and instead browse directly to one of Dr. Ham's Web sites, which are bristling with ads. Every time a user clicks on one of those ads, Dr. Ham is paid.

Because domainers like him are paid by the click, the payoff -- it can be anywhere from 25¢ per click to \$70 -- is closely tied to how much traffic the Web site gets. It's much like real estate: some locations are far more popular than others. Simple generic domain names are like a storefront on Fifth Avenue: valuable because of the traffic they attract.

So valuable that Vancouver-based domain company Communicate.com actually uses cmmn.com for its corporate Web site; it sells ads on communicate.com. It also owns cricket.com, which pulls in \$1,500 on a good day, company vice-president Adam Rabiner estimates. It costs about \$8 a year to hold onto a domain name, so profit margins are huge. Dr. Ham has a portfolio so good, and so extensive, that his annual revenues were estimated at US\$70-million in a recent profile in Business 2.0 magazine.

Direct-navigation marketing now accounts for 10% of all Internet advertising, and 15% of total revenues for companies such as Google and Yahoo! -- numbers that are expected to increase as online advertising surges and domain auctions fetch ever higher prices. According to Internet research company Zetetic, aftermarket domain sales hit US\$111-million last year as the average domain resale price leapt 13% over 2005. It grew 10% between 2004 and 2005.

Buyers are also increasingly willing to pay huge premiums for attractive names. Only one domain fetched more than \$1-million in 2005; in 2006, that had grown to five. This year, the number is expected to go far higher: in two weeks, moniker.com is holding an auction in New York featuring at least 15 names -- including auction.com, menopause.com and slots.com -- expected to sell for more than \$1-million.

Moniker founder Monte Cahl said in an interview he expects domain prices to rise by 15% to 40% a year over the next decade.

"It is appreciating at values currently that are in excess of just about any investment," he said.

Some of the gains come as venture capitalists -- and even virtual REITs -- join the fray, pushing up prices as the virtual real estate market matures. An estimated US\$50-million has been loaned in new domain mortgages, and corporations have leapt on board, too: GlaxoSmithKline now owns asthma.com, while Johnson & Johnson owns baby.com.

All of which is good news for B.C.'s domainers, who came at their riches from all walks of life. Mr. Chernoff was a hospital electrician. Dr. Ham was trained as a doctor.

Dan Cera, another Vancouverite, was a federal tax investigator. His wife bought him a computer in the late 1990s and five days later he had bought a handful of domains. A few years later, after the dot-com crash delivered up a torrent of good names, he was doing it full-time. He now owns a suite of travel-themed names, including visittoronto.ca and visitcalgary.ca.

Dr. Ham came at it from a different angle: he saw the Internet as a cutting-edge tool for evangelism. He succeeded in part because of a relentlessly creative push to beat competitors. Not long ago, he convinced the government of Cameroon to "wildcard" unused Web sites ending in '.cm' -- that country's domain suffix, like '.ca' for Canada -- but also a common typo for those trying to enter '.com.' As a result, anyone accidentally typing 'nationalpost.cm' will land on a Web site stocked with ads that make money for him and Cameroon.

How well does it work? Google.com is the world's third most-visited Web site. On Friday google.cm -- which has now been set up to forward traffic to pokerparty.com -- was No. 64,090: more than 100,000 spots higher than nationalpost.com.

Schemes such as that have earned Dr. Ham and other domainers derision from some who call them "typo-squatters" polluting the Internet with useless Web pages. Mr. Cera said "advertisers are being scammed like crazy" by domainer Web sites and calls the '.cm' play "one of the most egregious scams ever."

The problem, he said, is that advertisers pay for targeted results -- so Web surfers see ads that match the terms they are searching for. Simply throwing those ads onto a generic page can result in lots of useless exposure, he said.

"If you operate a store in the mall and I say to you, 'I can bring you 50,000 visitors today, does that excite you?' Without exception, people say 'yes,'" he said. "But what happens when the 49,999th person walks out of the store, your carpet is worn out and nobody's bought anything?"

But domainers like Dr. Ham say they are unfairly targeted.

"If the dot-cm extension were not wildcarded, you'd likely be forwarded to a Microsoft page.? Depends on your setting on your browser, but you'll basically be forwarded to their live.com search site," he said in an e-mail interview. "So there would be the same effect."

Domainers also defend their ad-supported sites as tools that can actually be more useful than search engines. Type in 'cheap-travel.com,' which Dr. Ham owns, and you get five links. Search for the same on Google and you get more than 73-million.

"The end result is very similar -- search results -- and oftentimes better as 'search spam' is reduced," said Dr. Ham.

Ultimately, though, he and other domainers are working to graduate from property owners to developers. The value of a generic name can increase exponentially when it is turned into a business. Take perfume.com, which Mr. Rabiner's company owns. Instead of a "parked" Web

site, which is what the ad-filled sites are called, he took the address and built a storefront on it. The cash stream swelled from a trickle to a torrent.

Last year perfume.com did \$7-million in sales, "and with minimal marketing. A lot of it had to do with the advantage of having perfume.com," he said. "Last year we spent 4.5% on marketing. In terms of Internet retailers, that's amongst the lowest I know of. The average is about 12%."

Indeed, Dr. Ham is adamant that the Internet remains rife with similar opportunities, and says he hopes his success inspires other Canadians to do the same. It can be done "without much money, without a proper education in business, computers," he says. "One needs to have a vision and passion for creating something of value at the end of the road."

The global tally for domain names has now reached 128 million, and while just about every possible permutation of dot-com is already taken, other suffixes - like .biz, .mobi or even country suffixes such as .cn from China - remain relatively fertile ground, domainers say.

Frank Schilling, a former Vancouverite who now lives in Grand Cayman -- where he owns 320,000 domains that have funded his part-ownership of a US\$45-million Gulfstream jet -- compares the Internet real estate play to the relative value of California property in the 1960s. "It's not the Wild West any more, but man, there's so much empty land and unturned soil and latent value," he says. "It's not like where you could go in 1900 with a horse and buggy and buy a million acres for \$1,000. But you can still buy for \$10,000 an acre, and that land will be worth a million an acre in time."