



## The Domain Name Industry Brief

Volume 1 - Issue 4 - November 2004

### The VeriSign Domain Report

As the global registry operator for .com and .net, VeriSign closely monitors the state of the domain name industry through a variety of statistical and analytical research. As the leading provider of intelligent infrastructure for the Internet, VeriSign provides these key trends to educate industry analysts, media, and businesses on important trends in domain registrations. This brief details current trends in the industry, highlighting key performance indicators and growth opportunities.



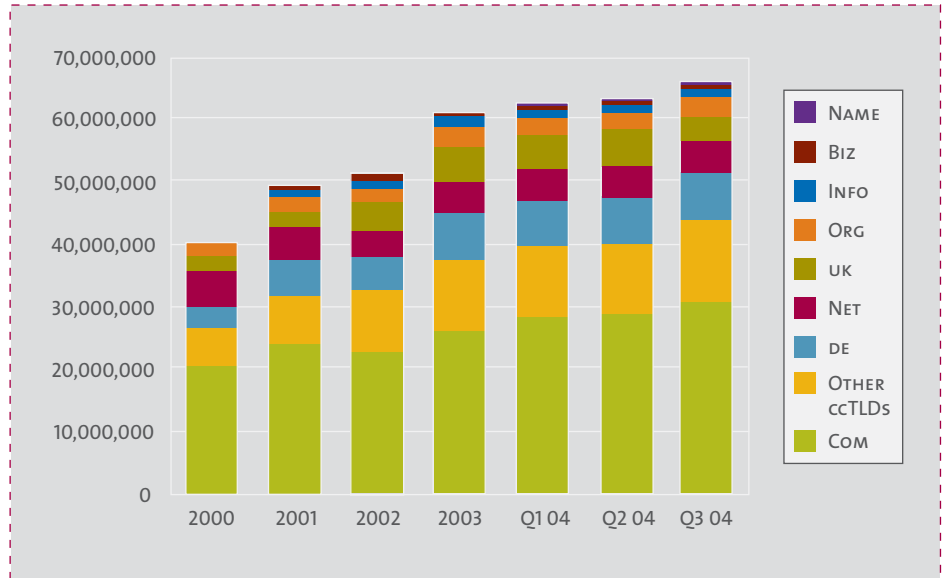
Where it all comes together.™



**+ Executive Summary**

The domain name market continues to show strong growth both in terms of total registrations and new registrations. With a nearly three percent increase in the third quarter when compared to the second quarter 2004, the total number of domain name registrations is now at a record high of 66.3 million domain names. Com remains the largest Top Level Domain in terms of its total base of registrations, followed by .de, .net and .uk for the third quarter 2004.

Total Domain Name Registrations

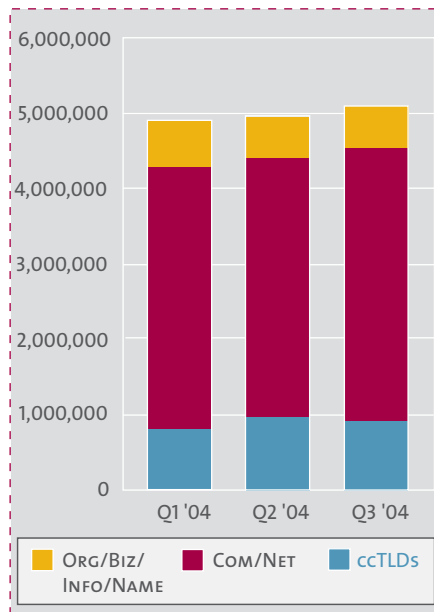


Total Domain Name Registrations

Sources: ZookNic, October 2004; VeriSign, October 2004

**+ Industry Growth and Composition**

New Registration Growth



New Registration Growth

Sources: ZookNic, October 2004; VeriSign, October 2004; Cyveillance, October 2004; ICANN Monthly Reports

Growth

Growth rates for domain name registrations remain at historically high levels over the past four quarters. In the third quarter of 2004, 5.1 million new domain names were registered. This figure represents the highest quarterly growth in Internet history. This increase in domain registrations continues a growth trend seen throughout 2004. Key factors for this growth include steady improvement in the global economy, an increasing population of regular Internet users with increased access and availability to the Internet, and the growing importance of domain registrations for use in the Pay-Per-Click (PPC) advertising market.

Domain names registrars and resellers are offering new product bundles and services which have helped fuel the domain name

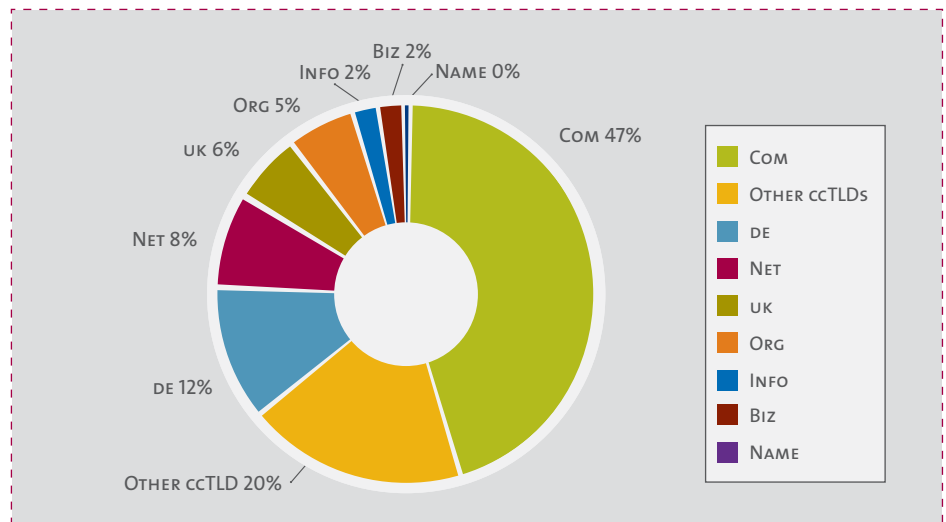
growth. For more information on domain name registrars and resellers, see the VeriSign Domain Name Industry Brief entitled, “The Channel Report”, published in November 2004 at [www.verisign.com/domainbrief](http://www.verisign.com/domainbrief).

### Industry Composition

Com currently accounts for 47 percent of all domain name registrations, followed as a group by country Code Top Level Domain names (ccTLDs) (37 percent), .net (8 percent) and the alternate Generic Top Level Domain Names (gTLDs) such as .org, .biz, .info and .name (9 percent, collectively). While .com is preferred in many countries, a number of ccTLDs are widely popular within particular countries.

The alternative gTLDs (.biz, .info, .name, etc.) offer the potential for added growth of the domain name space as well as providing registrants with additional branding and naming solutions. The alternative extensions continue to add registrations at an average rate of more than 90,000 per month. For instance, in the third quarter 2004, .name experienced a remarkable growth of 14 percent over the previous quarter. This jump is attributable to partnerships and innovative marketing tools for this particular domain offering.

Industry Composition\*



### Industry Composition

Sources: ZookNic, October 2004; VeriSign, October 2004; Cyveillance, October 2004

\* Due to numerical rounding, percentages may not equal 100%

### ccTLD Breakdown

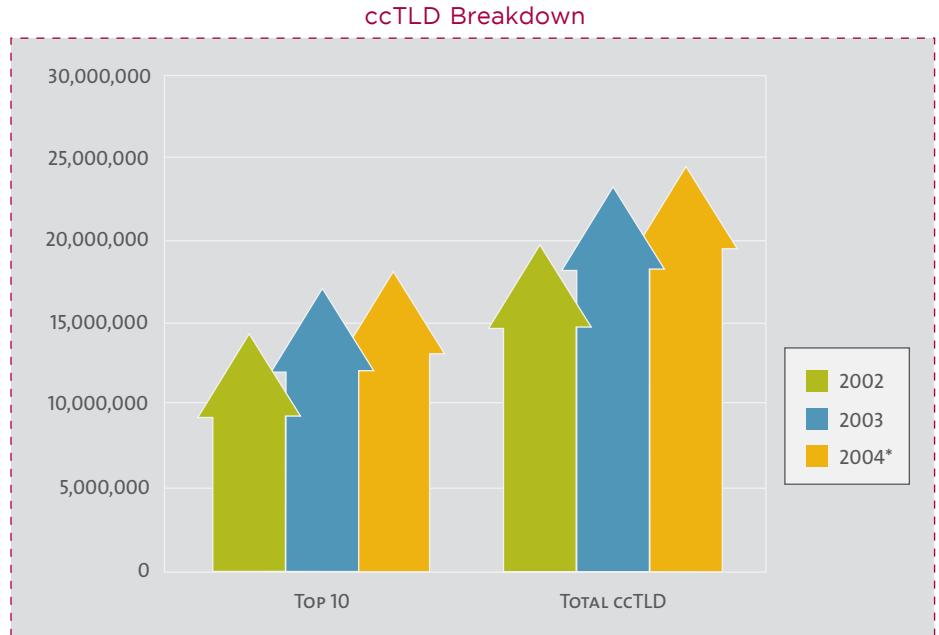
The vast majority of registrations across all ccTLDs are attributable to a small number of ccTLDs. Out of more than 240 ccTLDs, the top ten account for 72 percent of all ccTLD registrations. All of the top ten ccTLDs saw growth in the third quarter with the exception of .uk which saw a significant decline. The .uk decline is a result of the completion of a one-time project to remove unwanted domain names from the registry. New .uk domain name registrations have remained at consistently high levels throughout 2004. The key factors in the success of the top ccTLD registries include low price, non-traditional merchandizing and the direct appeal to local Internet users. Factors that limit the potential for other ccTLD’s adoption include higher prices and additional registration processes which make inclusion in the primary purchase flows difficult. Some of the more restrictive ccTLD operators require potential registrants to have a local presence or will only permit domain names that exactly match a registrant’s registered trademark.



ccTLD Breakdown

Source: ZookNic, October 2004

\* Through Third Quarter 2004



**+ Com/Net Dynamics**

VeriSign processes over 14 billion .com and .net queries each day, thereby enabling millions of Internet users to access Web sites or send email. The number of daily queries that VeriSign processes continues to increase incrementally quarter over quarter, demonstrating that overall Internet use is increasing on a consistent basis. On average, the number of queries that VeriSign processes each day doubles every 12 to 24 months. As it has for the past seven years, the VeriSign Domain Name System (DNS) continued to maintain operational “accuracy” 100 percent of the time during the third quarter 2004.

**The Com and Net Base**

In terms of market and brand awareness, .com is still the most popular domain name extension. At the end of the third quarter, .net was the third largest gTLD in terms of the number of overall registrations. While .net only accounts for eight percent of the world’s domain names, it represents 58 percent of worldwide hosts and 30 percent of the world’s nameservers<sup>1</sup>. Consequently, a significant portion of the Internet relies on .net making it one of the world’s most important communications networks. Everyday, infrastructure providers, online retailers, community organizations, and government entities utilize .net as their primary domain or name servers to facilitate delivery of over 155B e-mails and roughly 30 percent of eCommerce<sup>2</sup>.

Third quarter also saw the usage of ConsoliDate increase tenfold. ConsoliDate is a service that allows domain name registrants to adjust the expiration dates of their .com and .net domain names, consolidating them under a calendar day (or days) of their own choosing. The increase was driven by a price promotion and the resulting rise in registrar promotion of the service.

**New Registrations**

New .com and .net registrations were added at an average of 1.2 million per month in the third quarter of 2004. This is a 33 percent increase over the third quarter of 2003.

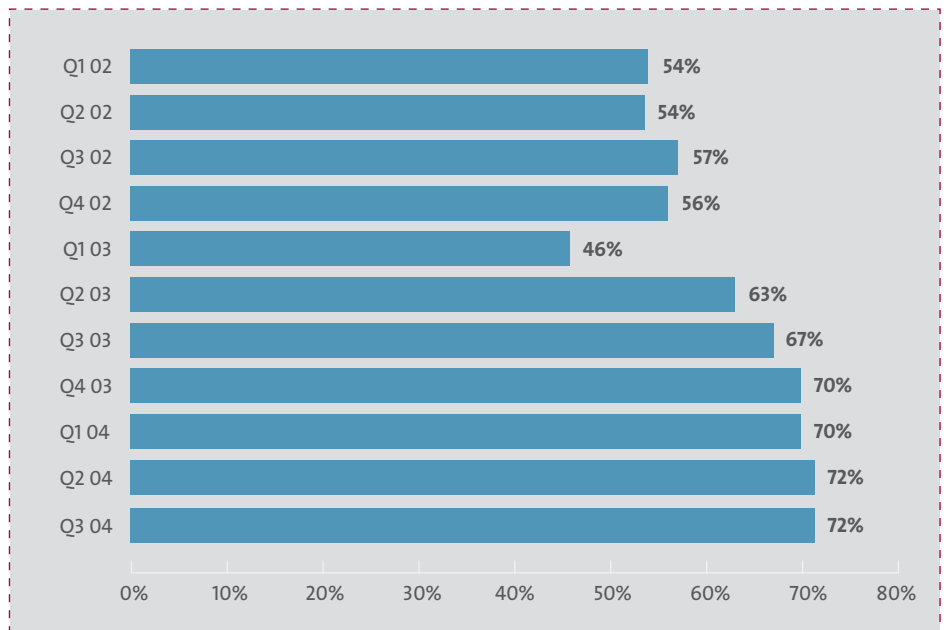
<sup>1</sup> Cyveillance, “.net: A Critical Infrastructure Analysis” October 2003 and ZookNic, “Net TLD Project: Measuring the Role of .NET in the Internet” June 2004.  
<sup>2</sup> IDC, “Worldwide Email Usage Forecast, 2003-2007” October 2003; “Worldwide Internet Usage and Commerce” March 2004; Interactive Week, Nov 5 2001, list of 500 largest eCommerce companies extrapolated to 2004; eMarketer, “E-Commerce Trade & B2B Exchanges” April 2003.



**Renewals**

Retention in the domain name industry is expressed in renewals. Renewal rates are a key indicator of the continued growth within the domain name industry. With registry renewal rates at 72 percent, domain name registrants are making the decision to keep their domain names at record levels. The renewal rate for domain names that have been previously renewed is 80 percent compared to a renewal rate of 63 percent for domain names going through their first renewal cycle. This is evidence that the domain name base is maturing, but is by no accounts fully mature.

**Com/Net Registry Renewal Rates**



*Com/Net Registry Renewal Rates*

Source: VeriSign, November 2004

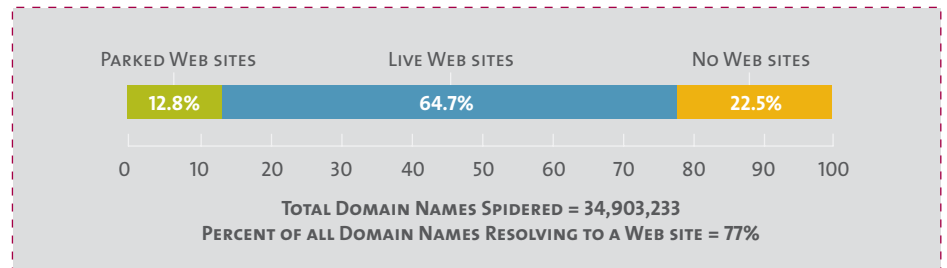
The usage of domain names is a key factor in the high renewal rates since domain names that are in use are more likely to be renewed than unused domain names. In a recent study of all .com and .net domain names, 77 percent of these names are currently associated with a Web site; 64 percent are live sites and 13 percent are parked sites. Live Web sites are those being used by an organization or an individual.<sup>3</sup> The number of live Web sites increased seven percent since the previous quarter. Parked Web sites are defined as Web sites that are not actively being used, but are associated with a domain name.

*Com/Net Websites*

Source: Cyveillance, October 2004

<sup>3</sup> For this reporting period forward, the filters used to determine the percentage of parked sites were revised by Cyveillance to be more accurate. Due to the revised filters, comparison of the level of parked sites over time is not possible.

**Com/Net Websites<sup>3</sup>**

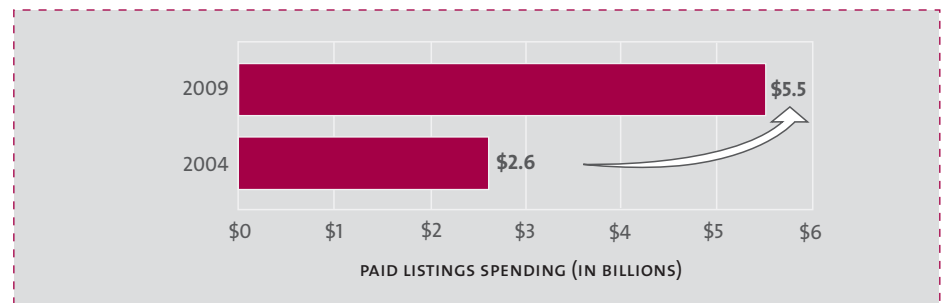


### + Opportunities for Growth

The domain name industry is seeing a revival in the value of domain names for the communications traffic that they generate. Advertisers have found online advertising, especially Pay-Per-Click (PPC) advertising, to be an efficient and economic way to target and reach customers. In the PPC advertising model, advertisers bid on keywords for which they wish to place their advertising message. They agree to pay a certain amount each time someone clicks on the listing. An Internet user types keywords into a Web application, usually a search engine, and the advertisements are subsequently shown on the results page. Recently, through programs like Google's AdSense, any content site can apply to place PPC contextual advertisements on their site and generate revenue.

The PPC advertising market is driving domain name registration growth as registrants register domain names that contain meaningful terms or attract traffic. These registrants generate revenue by enhancing resale value of the domain name or by placing PPC advertisements on a parked page. The company that serves the advertisements shares revenue with the domain name registrant according to a negotiated split. Jupiter Research estimates that the PPC advertising market will grow from \$2.6 billion in 2004 to \$5.5 billion in 2009<sup>4</sup>. The average amount paid per click is currently between \$.029 and \$0.35<sup>5</sup>. Some keywords are more valuable than others with the term hosting getting \$13.00 per click and the term home equity loan getting almost \$15.00 per click.<sup>6</sup> Growth in PPC advertising offers a new revenue generating proposition for domain names.

Total Paid Listing Spending 2004 - 2009



### Total Paid Listing Spending 2004 - 2009

Source: Jupiter Research as cited in  
*Wired News*

### + Learn More

To subscribe or to access the archives for the Domain Name Industry Briefs, please go to [www.verisign.com/domainbrief](http://www.verisign.com/domainbrief). Email your comments or questions to [domainbrief@verisign.com](mailto:domainbrief@verisign.com).

### + About VeriSign

VeriSign, Inc. (Nasdaq: VRSN), delivers critical infrastructure services that make the Internet and telecommunications networks more intelligent, reliable and secure. Every day VeriSign helps thousands of businesses and millions of consumers connect, communicate, and transact with confidence.

<sup>4</sup> "Paid Search Growth May Slow," *Wired News*, August 8, 2004.

<sup>5</sup> Larry Dobrow, "Searching for Growth: 'Paid' Players Must Look Local," February 12, 2004.

<sup>6</sup> <http://www.content.overture.com/d/USm/ac/index.jhtml>, November 2004.