

Drop-Catching

A study on the fate of expiring domains and how the Add Grace Period is leveraged to avert domain name investment risks

Written by FairWinds Partners on behalf of the
Coalition Against Domain Name Abuse
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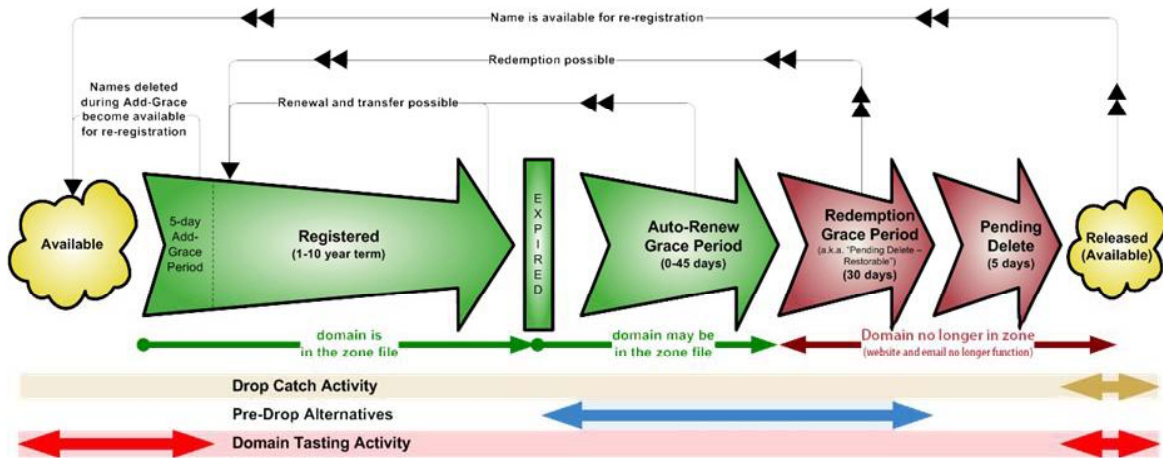
Introduction

The cyberspace real estate market is booming and domain names are now registered at a faster pace than ever before. One core reason for the expanding marketplace is that domain names can produce monthly cash flow much like rent does in the traditional real estate market. Domainers will tell you that even “bad” names can generate income of \$100/year, which is more than 10 times the cost. The ability to monetize domain investments has created increased competition for available and expiring domain names.

One of the most common means used to identify a name of value in this new marketplace is the Add Grace Period (AGP). During this period, a name can be returned and all fees paid will be refunded for any reason. Often times, domain names that deliver value are those that are intuitive to consumers because they correspond to a famous or well-known brand. Abusive Domain Name Tasting is a practice whereby a relatively small number of registrars and individuals register millions of domain names on a daily basis that often include brands and typographical errors of brands en masse and free of charge by exploiting the 5-day AGP. The term "Domain Kiting" refers to the tasting practice of repeatedly adding and dropping the same domain name every few days in order to avoid the registration fee, while monetizing the traffic by loading the page with recycled pay-per-click (PPC) advertising links. The number of Web sites and the pace of activity severely hinder detection and enforcement efforts by trademark holders and law enforcement officials.

The practices of tasting and kiting are known to be used to identify new domain names. CADNA set out to determine whether significant levels of tasting, kiting and other cybersquatting techniques were being employed during the process of drop-catching.

Figure 1: Life Cycle of a Domain Name¹



Drop-catching refers to the process whereby a domain that has expired is released again into the pool of available names and is immediately registered by another individual. Typically that party has no knowledge as to whether the name has value. If there is a connection between these practices, one would expect to find a high volume of domain names registered immediately after their expiration date, followed by a return of the domains deemed to be of little value. Those dropped domain names would be picked up by other registrants, tested, and perhaps dropped again. Through this process, the original set of expired domain names would be whittled down into two groups; those that would remain registered and are slated for use and those that have proved to be of little value and have been discarded. Eventually, the percentage of registrations of newly expired domain names would taper off.

¹ Life Cycle of a Typical gTLD Domain Name. <<http://www.icann.org/registrars/gtld-lifecycle.htm>>

Method

CADNA employed the services of Zooknic, a well-known and frequently cited source of statistical domain name research and intelligence, to assist in data gathering. A sample size of approximately 17,000 domain names was randomly selected from the list of expired domain names set to be released on September 18, 2007. This list of domain names contained an unequal mix of Dot-ORG, Dot-NET and Dot-COM domains.

Over the course of 11 days, beginning on September 19th and ending on September 30th, the Whois data on each name was pulled every two to three days. The intervals chosen for data collection were done so in order to check activity within the 5-day Add Grace Period. A final data pull was conducted on November 23rd in order to provide a snapshot of activity that occurred after the initial frenzy surrounding the newly released domains. Included in this data pool was the authoritative registrar for the name, the registrant ID, and the creation date of the domain name.

At the conclusion of the interval research phase, the domain name data was analyzed based upon frequency of add/drop, overall count, registrar change(s), and registrant ID change(s).

This data is based on a sampling technique that has an associated margin of error based on the sample size (n), the sub-sample share and a selected confidence interval (generally 95%). Therefore, for the percentages reported in this paper, the error rate is (+/- 1.0 %) for Dot-COM domains, (+/- 1.4%) for Dot-NET domains and (+/- 2.4 %) for Dot-ORG domains.

Results

Dot-ORG (n= 1,680)

21.2% of Dot-ORG domains that were released into the available pool of names on September 18th were registered again at least once during the timeframe of this study. In fact, 88.6% were left unregistered between September 30th and the follow up date of November 23rd and only 4.8% of the domains were registered during that gap.

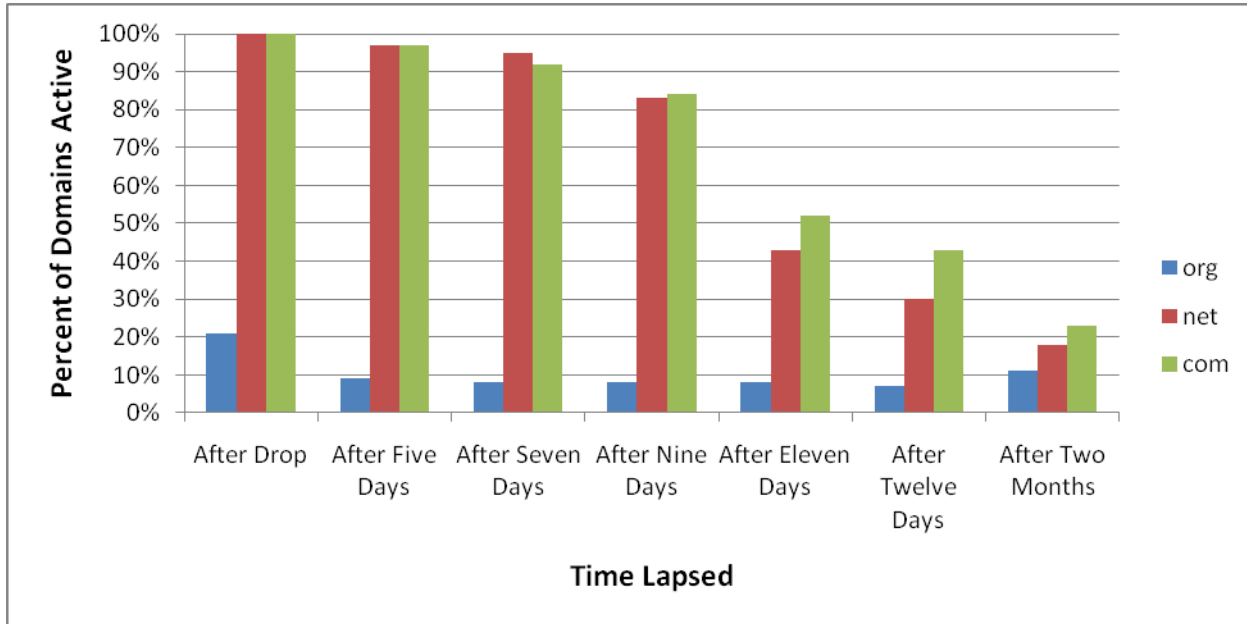
Dot-NET (n= 5,678)

100% of Dot-NET domains that were released into the available pool of names on September 18th were registered again at least once during the timeframe of this study. Many of these domain names were continually registered and dropped throughout the process, but the numbers peaked with 39.8% of the domain names being registered and dropped during the first eleven days. The follow up on November 23rd revealed that 15.7% of domains had been dropped since September 30, with 1.9% having been dropped and re-registered during that same time.

Dot-COM (n= 10,098)

100% of Dot-COM domains that were released into the available pool of names on September 18th were registered again at least once during the timeframe of this study. 32.3% of these names were actively added and dropped during the first eleven days. 23.4% of the domain names were dropped between September 30th and November 23rd, with 3.4 % of domains dropped and registered during that same gap of time.

Figure 2: Active Domain Name Gradient



It is clear that the practices of domain tasting and kiting were employed in conjunction with drop-catching to sift through a larger pool of names in hopes of identifying and keeping only those names that delivered value. The value of a domain is based upon the amount of traffic the names received. The sifting that took place is apparent in *Figure 2*, where a gradual decrease in the total number of domains registered from the September 18th list of newly released domain names can be seen.

Discussion

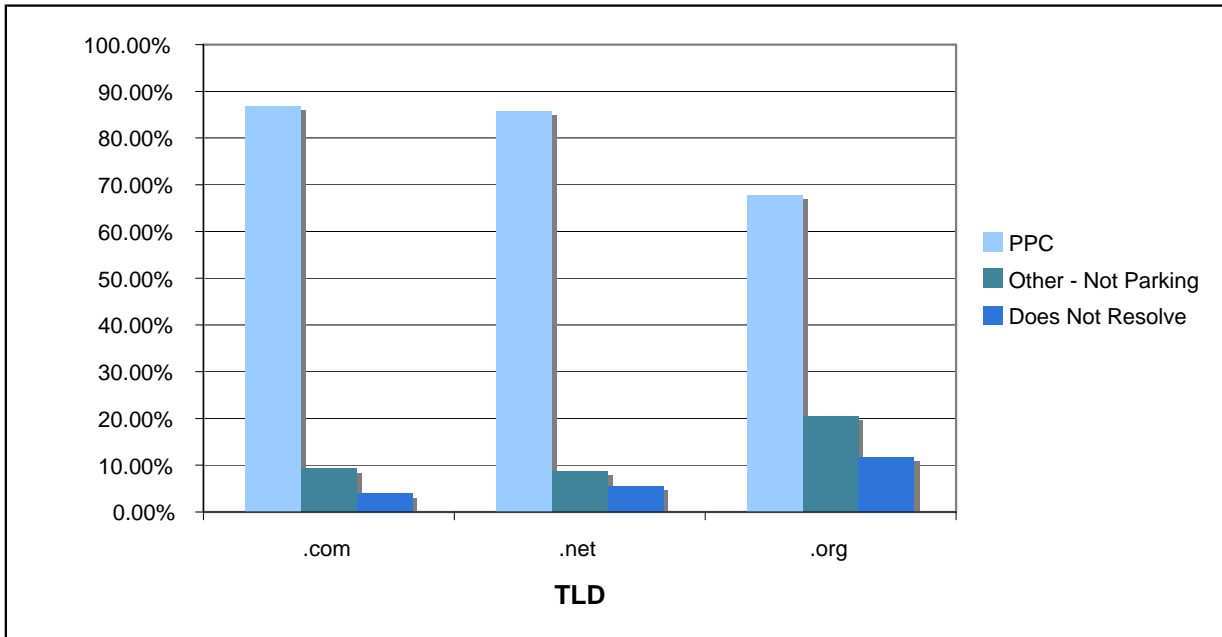
The significant number of domain names that were actively added and dropped throughout the study suggests that registrants were engaged in tasting, kiting and testing the profitability of the names before deciding whether to hold these names for future use. Profitability in this case is determined by the amount of traffic that the domain name attracts, the number of clicks on ads visitors make, and the value of those clicks during the add grace period. While all three pieces of information help speculators make more informed decisions, the most valuable component is traffic and it can be measured without placing ads, such as those syndicated from networks that include Google and Yahoo!, on the sites.

As expected, there was a high volume of domain names registered shortly after their release. In fact, all Dot-NET and Dot-COM domains were registered immediately after their release and experienced high turnover throughout the 11-day study. The turnover we observed when following domain names throughout the study often included sequential adds and drops, with multiple registrars participating. Dot-COMs were significantly more likely to experience high turnover with 23.4% of Dot-COM domains dropped after the first add, versus 15.7% of Dot-NETs and a mere 0.7% of Dot-ORGs. Dot-COMs were also more likely to be active towards the end of the study. 42.8% of Dot-COM domains were active on September 30th, as compared to 30.0% of Dot-NETs and only 6.6% of Dot-ORGs.

On November 23rd, 22.9% of Dot-COMs were active, as compared to 17.7% of Dot-NETs and 10.8% of Dot-ORGs. If we assume that the domain names involved in this process are tested with the ultimate goal of profiting off of the traffic and overall value of the name, then this data suggests that Dot-COM names offer better economic incentives than Dot-NET and Dot-ORG domains. Such an assumption is supported by the fact that the majority of pay-per-click Web sites are found on Dot-COM domains and the majority of direct navigation is to Dot-COM addresses.

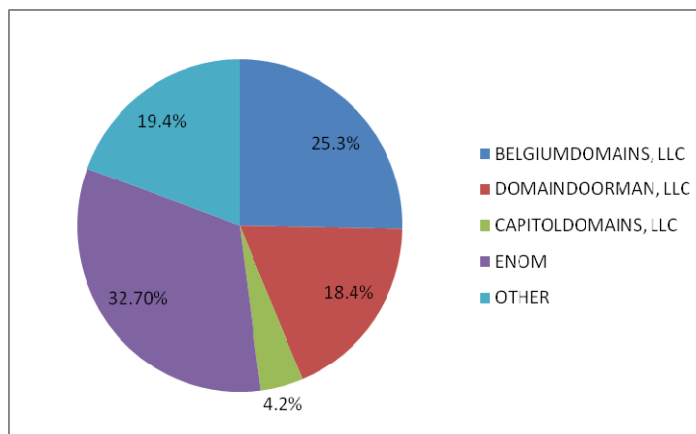
As seen in Figure 3, the results also show that 87% of Dot-COM drop catchers use the domain names for pay-per-click (PPC) sites. They have no interest in these domain names other than leveraging them to post PPC ads and turn a profit. Interestingly, only 67% of Dot-ORG drop catchers use the domains they catch to post these sites most likely because Dot-ORG names are harder to monetize due to the lack of type-in traffic and because they tend to be used for more legitimate purposes.

Figure 3: How Names that are Kept are Used



There were instances of typosquatting found in the data, such as the registration of “helenarubinstien.com” a misspelling of the name “Helena Rubinstein,” that was registered by Wan-Fu China, Ltd. Wan-Fu is a well-known alias used by “Unasi,” a famous drop catcher and cybersquatter. This sort of instance goes to illustrate how cybersquatters can use the 5 day AGP to turn a profit. By registering the typo “helenarubinstien.com,” registrants can see how much traffic can be siphoned from its true destination—presumably Helena Rubinstein cosmetics or charitable foundation—and decide if monetizing that traffic will generate enough profit to make the domain worth keeping.

**Figure 4: Registered Domain Names (n= 7,135)
Grouped by Registrar on Sept. 30th**



One of the major drop-catchers identified through this study is Enom. As seen in *Figure 4*, on September 30th, Enom had 32% of the total number of domains registered at that point in the study. Enom, along with its scores of ICANN-accredited registrars, added and dropped a total of 2,357 domain names over the course of the study. This accounts for over one-fifth of the sampled domain names. By the end of the study, Enom had registered and retained 1,251 domain names, or 54% of those that were available.

The domains derived from trademarks and typos of trademarks included in the random sample exemplify the type of cybersquatting business-model that is harming the integrity of the Internet. Not only are individuals left with fewer choices of available domain names to register, but users are more likely to be exposed to negative experiences while on the Internet. Cybersquatters build sites to test the profitability of domain names, often in the form of pay-per-click Web pages. At best, this leaves Internet users inconvenienced because of misdirection during “type-in” or “direct search” experiences and at worst it leaves Internet users exposed to personal security risks and malwares such as spyware and trojans.

It should be noted that the adding and dropping of domain names is not carried out solely by professional cybersquatters, which are individuals that have created a business of monetizing traffic by preying upon Internet users searching for legitimate and often trademark derived Web sites. Frequently, individuals who may have legitimate private interests and reasons for registering a name engage in these practices as well. However, these individuals are not serial drop catchers and they do not have the technological capabilities to test the popularity of a domain. While they may participate in drop-catching from time to time, they are not contributing to the negative effects of drop-catching. Scrutiny should be focused on the high volume of domain names being registered and dropped by registrars that do have the means to taste domains and have an unfair advantage over the rest of the Internet community.

Conclusion

The practice of drop-catching, combined with domain tasting and kiting, has created a landscape of abuse and unfair business practices where consumer choice is limited and fraudulent behavior including illegal cybersquatting are rampant. We believe that the unfair and unjust speculation enabled by abuse of the AGP has led to many of the problems seen on the Internet today. Drop-catching alone is not what has led to this problematic environment, but rather it is the abuse of the AGP in connection with drop-catching that appears to be the cause.

While the original purpose of the AGP was well intentioned, it has become a means for blatant abuse of the domain name system. Revaluating the AGP could go a long way in addressing many of the issues faced by brand owners and consumers on the Internet today.

While ICANN is currently examining the AGP and contemplating potential changes in order to address some of the concerns associated with domain name tasting, many are fearful that ICANN will decide on a solution that has little impact. For example, if the GNSO council were to recommend making ICANN's \$0.20 fee non-refundable, the measure may not be enough. Not only would it fail to eliminate the practice completely, but there would be pressure by the constituencies within ICANN to give the new change time and thus it could ultimately slow down the process of bringing about positive change.

Beyond just making ICANN's domain name fee non-refundable, ICANN might opt to levy a restocking fee – or a similar fee – that would be charged for every domain name immediately upon registration. When considering the implementation of a restocking fee, it is important to remember that unless a restocking fee is significant (in the range of 50% of the cost of a name or more), it will not do enough to curb Dot-COM domain tasting and therefore will not sufficiently protect consumers and the integrity of the Internet. Because monetizing domain name traffic is such a profitable business, having the option to return non-profitable assets for a fee and re-coup some of the cost of domains will still make domain tasting an appealing option. An insufficient fee will simply slow the pace of the practice.

While .CN did not institute a restocking fee, their 2007 price drop in the cost of a domain name registration could be indicative of the lack of effectiveness associated with a low price restocking fee. The .CN registry's decision to drop their registration price to roughly \$0.12 per year per domain name in early 2007 spurred a dramatic increase in domain registrations in China and a fivefold increase in the number of Web sites using the .CN suffix. After examining the economics of traffic monetization, it becomes apparent that .CN in China is very similar to the most popular TLDs in countries around the world (such as .COM both in the U.S. and globally, .CO.UK in the United Kingdom, or .DE in Germany.) Ultimately the only way a restocking fee could work is if it was high enough to influence registrant behavior. While the intent was not to create a restocking fee, the fact that a low price actually encouraged "test" registrations for a period of one year suggests that a similar low-cost restocking fee in Dot-COM will not necessarily work to curb the ill effects of domain tasting.

CADNA Position

CADNA maintains that abolishing the AGP is the safest and most effective solution to the issue at hand. However, in light of the lack of oversight involvement, CADNA urges ICANN and the GNSO to consider additional monetary disincentives associated with dropping a name during the AGP beyond ICANN's \$0.20 portion of the domain registration fee. A restocking fee, or similar charge, in excess of 50% of the registry fee should be considered. It is important to ensure that:

- 1) The fee imposed is a deterrent to the negative aspects of domain tasting
- 2) A non-refundable fee is accompanied by a threshold percentage on the number of deletes any registrar may make. An excess-deletion fee could be charged when the number of deleted registrations within the five-day AGP is in excess of a determined percent of the total number of initial registrations made by the registrar over a given time period.

This is an attempt to appease both the registries and the registrars. The registries would continue to collect the registration fee when a registrant chooses to retain the domain and non-tasting registrars would still operate within the domain name system and leverage AGP for occasional systems testing.

CADNA will make the data components of this research project available to the GNSO council and urge them to institute a solution that will end this abusive tasting practice. A move such as a modest restocking fee will signal to government and the legitimate business community that ICANN views its "tasting solution" as nothing more than a new revenue opportunity. If ICANN does not take more decisive action, it will be clear that it has no interest in deterring bad actors from mining the domain space for personal gain at the expense of the greater Internet community.

Contacts:

Josh Bourne, President
Email: josh@cadna.org

Phil Lodico, Vice President
Email: phil@cadna.org

The Coalition Against Domain Name Abuse, Inc.
2122 P Street, NW
Suite 300
Washington, D.C. 20037