



**Comment on Phase II
Assessment of the
Competitive Effects
Associated with the New
gTLD Program**

Status: FINAL

Version: 2

5-Dec-2016

Business Constituency Submission

GNSO//CSG//BC

Background

This document is the response of the ICANN Business Constituency (BC), from the perspective of business users and registrants, as defined in our Charter:

The mission of the Business Constituency is to ensure that ICANN policy positions are consistent with the development of an Internet that:

1. promotes end-user confidence because it is a safe place to conduct business
2. is competitive in the supply of registry and registrar and related services
3. is technically stable, secure and reliable.

Phase II Assessment of the Competitive Effects Associated with the New gTLD Program

The Business Constituency (BC) appreciates the opportunity to comment on the Phase II Assessment of the Competitive Effects Associated with the New gTLD Program, an important next step in analyzing the impact of new gTLDs on competition in the domain name marketplace¹.

This study follows up on the Phase I Assessment of Competitive Effects Associated with the New gTLD Program, which set forth baseline metrics for assessing domain name marketplace competitiveness. In addition to updating those metrics, Phase II draws upon additional new gTLDs, including IDN gTLDs, to assess the extent to which the New gTLD Program has affected the competitiveness of the domain name marketplace.

Due to a lack of data, the Phase II Assessment is unable to definitively conclude that the New gTLD Program has had a major impact on domain name marketplace competition. However, key findings include:

- A decline in registration prices for legacy and new gTLDs.
- Changes in the entities listed in the largest 15 registries and registrars.²
- An expansion of new gTLDs, which now account for 9% of all gTLD registrations.³
- No worldwide/aggregate effect of new gTLD registrations on legacy TLD registrations.

Other notable findings include:

- Wholesale price caps for legacy gTLDs continue to be lower than wholesale prices for new gTLDs.
- Asia Pacific and Europe saw the largest percentage growth in number of registry operators.
- Changes in new gTLD registration shares of registrars, with more registrars located in China seeing the largest shares of new gTLD registrations.

¹ Comment page at <https://www.icann.org/public-comments/competitive-effects-assessment-2016-10-11-en>

² This list ranks entities by total domain registrations “as a result of entry by new gTLD registries and growth in registrations made by different registrars who register new gTLD domains.” (Phase II Assessment, 4)

³ This is a notable increase from November 2014, when new gTLD registrations accounted for approximately 2 percent of all gTLD registrations. (Phase II Assessment, page 2)

Comments

The BC appreciates the Phase II Assessment's goals and framework. We commend the study for increasing the number of IDNs in the sampling, thereby providing a more complete picture of the new gTLD ecosystem, and for taking account of the highest-number registration registries to better reflect market trends.

However, we agree with the Assessment that it is not possible to conclusively determine the impact of new gTLDs on domain name marketplace competitiveness due to lack of data. Given this lack of conclusive data, we take a cautious approach to statements that use a limited amount of present-day data to make assumptions about the future of marketplace competitiveness. For example, the BC challenges the premises of the statement that "new gTLDs [are] generally not being treated as substitutes for legacy TLDs" (page 53). It may be that business registrants acquired new gTLD domains to complement their legacy gTLD domains, giving them the option to migrate their marketing collateral to the new gTLD at some point in the future. Moreover, the cost of retaining a legacy gTLD domain is low enough that many registrants would retain their legacy domains even after acquiring domains in new gTLDs. While this behavior is not an immediate "substitution" for legacy gTLD domains, it is indicative of an anticipated future substitution.

In response to the Phase I Assessment, the BC noted that "more thorough analysis is needed and requires detailed transaction-level data from registries, registrars, resellers, and other market-makers".⁴ The BC reiterates the importance of this data, which is not included in the Phase II Assessment. Furthermore, the BC had recommended that additional data points be added to capture add-on fees by registrars and registries -- it is not clear from this report whether that was done. Finally, the BC notes that the report has not properly established a correlation between registrar pricing within registries and competition and has indeed completely dropped Table 13 of the Phase I study.

Recommendations

To facilitate a more robust assessment of new gTLDs and domain name marketplace competition, the BC recommends:

- 1. Inclusion of additional data points from registries and registrars in future studies.**

As the Phase II Assessment notes, transaction-level data from registries and registrars would allow for important analyses, such as a price comparison of similar second-level domains across legacy and new gTLDs. The BC understands that this data would need to be collected carefully, with special attention paid to protect confidential and proprietary information. However, given the importance of this issue, we are hopeful that registries, registrars, and other relevant secondary market institutions will contribute the data necessary for robust, conclusive analyses.

⁴ [BC Comments on Phase I Assessment](#), 7 November 2015.

2. Inclusion of additional data on changes in prices for legacy gTLDs.

In order to gain a more granular understanding of marketplace competitiveness, the BC encourages the inclusion of additional data on price changes for legacy gTLDs.

However, this analysis should not include price changes for .COM and .NET, as prices for these domains have been capped for several years; these price caps have likely kept .COM and .NET prices from rising to levels whereupon new gTLD entry would have placed downward pressure on prices for domains in legacy gTLDs COM and NET.

3. Inclusion of ccTLDs and follow up analysis on the impact of regional gTLDs on marketplace competitiveness.

Future analyses of consumer choice and competition should include ccTLDs in market definition, since ccTLDs are appropriate substitutes for gTLDs for many business users and registrants.

Relatedly, in its analysis of the effect of the entry of regional gTLDs (Table 12), the Phase II Assessment records a decline in new and legacy gTLD registrations associated with the entry of relevant regional TLDs. The BC sees value in exploring this correlation so that the ICANN community is better positioned to understand the impact of regional gTLDs on the domain name marketplace.

4. Additional usage details on new gTLDs, including separate analysis of active vs. parked domains.

The Phase II report focuses on price, and while BC agrees that this is an important measure of the effects of competition, we are interested to learn more about how registrants intend to use the domain names that are being registered.

The report quantifies continued growth of registrations for both legacy and new gTLDs, indicates substitution may be taking place for regional TLDs, but also stresses that new gTLDs are generally not being treated as substitutes for legacy TLDs. An analysis of whether these registrations are for speculative, defensive or active purposes would be valuable.

For example, Table 2D of the Phase II shows the emergence of XYZ.com, Jiangsu Bangning Science & Technology and Donuts as largest Registry Operators (by share) of New gTLD registrations. For .XYZ.com, we know that a sale undertaken in June 2016 prompted an enormous number of registrations yet its unclear whether this new gTLD is gaining any prominence with active use.⁵ Donuts identifies thousands of registrations in its various new gTLDs with .guru and .email topping the list with about 62,000 registrations each, yet a cursory

⁵ [Domain Incite](#), 2 June 2016.

search of domain names that have been registered shows no active use.⁶ Jiangsu Bangning Science & Technology hold the .top new gTLD. Over 188,000 domain names have been registered, yet 134,000 of these are parked.⁷

Obtaining information from new gTLD registries about how registrants intend to use their domain names; whether for speculative, defensive, or active use; would provide a valuable metric on the competition that is resulting from the introduction of new gTLDs. Absence of an intention for substitution, which could be derived from this information, could also give an indication of whether registrants believe trust is being created by the gTLD expansion.

Relatedly, the BC recommends additional analysis on active vs. parked domains. The Phase II Assessment notes that registrars in China have recorded the largest share of new gTLD registrations. However, seeing as how these registrations exhibit a high degree of parking, the BC recommends that future studies also include separate analysis that excludes parked data in order to better understand the marketplace effects of active domains.

We recommend that future studies establish whether the prevalence of parked domains are a feature of the new gTLDs or are simply a carry-over from the legacy period by obtaining statistics on legacy parking levels.

5. **Clarity on registration price analysis.**

The BC also urges clear and explicit inclusion of any add-on fees by registrars and registries that may not be captured by existing metrics.

In the Phase II Assessment, Table 6 and Table 7 provide a comparison between Phase I and Phase II Wholesale Price Distribution and Retail Price Distribution, respectively. As noted, prices were not always available from registries and registrars and were collected from websites or other manual processes. As requested in our response to the Phase I Assessment, the BC reiterates that future studies should capture additional registration fees such as Premium Fees and Early Access Program fees and present these in separate tables for more detailed analysis. This will allow for a more in-depth comparison of certain one-time fees versus ongoing registration prices in the new gTLD program.

Moreover, the report recognizes that certain pricing data gathering and analysis was constrained due to limited availability. Future analysis should gather more complete data and comprehensively describe the methodology for analyzing pricing dynamics. For example, the study could describe how the retail price methodology accounts for short-term or selective promotional pricing, which is sometimes used to stimulate demand during targeted periods, in targeted media, or in targeted regions. A wholesale pricing analysis explanation should account

⁶ [Donuts](#)

⁷ [nTLDStats](#), 16 November 2016.

for ways that wholesale prices can be offset by distribution partners using volume pricing, rebates, or shared marketing programs.

6. Additional insight into switching costs.

Finally, the BC sees value in future studies which include information on switching costs. This could be assessed by asking legacy gTLD and ccTLD registrants about the importance of switching costs to their decision to switch/not switch and, if possible, the identification and quantification of such costs.

--

This comment was drafted by Hibah Kamal-Grayson, Cecilia Smith, Waudu Siganga, Tim Smith, and Steve DelBianco. It was approved in accord with the BC charter.