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

AFNIC’s comments – December 5th, 2016.

Afnic welcomes the opportunity to share its views about the ways and methods to measure the level of competition on the domain name market.

The “Phase II Assessment” points out that we are still living in a period of transition. Although our industry entire business relies on data management, the study acknowledges a lack of relevant data. Afnic strongly thinks that data sharing shall be encouraged within the ICANN community, for instance through an Open Data approach.

The study is thus very valuable for its intents and for the foundations it lays for future researches. The methodology used by the authors has been chosen in order to reach the maximum results using the scarce available data. The global approach is an indirect one, concluding that there might be no competitive effects providing that if there were some, the gathered data should show a different behavior of the market (page 2).

The authors point out that their analyses are *“descriptive in nature and do not measure the causal impact of the New TLD Program on competition”* (p. 53), and that is why they do not try to challenge the results they get, neither they do find and explain the “whys” and “hows” of what they observe.

In a nutshell, the Assessment concludes that the new TLDs do not have any impact on the Legacy gTLDs, and in the same time that there is no evidence available to prove that there has not been an increase of the competition, two affirmations that appear somewhat contradictory.

Afnic does believe that in the future a better access to the data, and a growing knowledge of the market dynamics among the researchers, will help to solve these apparent paradoxes which reveals some areas or phenomenon that can not be easily addressed with the available data.

Afnic provides the following ideas in order to feed the future studies:

- the very concept of “competition” shall be defined precisely, in order to avoid some misunderstandings. The study is exclusively focused on assessing competition based on the volume of registrations. While, in the past, wholesale prices were roughly similar at registry level for gTLDs, the diversity of business models has significantly increased with the introduction of new gTLDs. As a consequence, further studies should endeavor to take revenue analysis into account as an additional dimension.

- for quite the same reason, we suggest to deepen the analysis relying on the segmentation of new TLDs according to their nature (generic, geographic, communautary, .corp) and among the generics, the sector of goods or services they aim to address. It would make sense to compare two TLDs targeting the same customers – a point taken by the authors – but we can not be very conclusive when considering the whole corpus of available gTLDs. This segmentation would also provide clues to understand the pricing strategies and their good or bad results, in the short term or in the long range.

- we suggest to take into account in the analysis the extraordinary events which may affect the data, such as the two “Chinese registrations waves” observed during the Automn of 2015 and the Spring of 2016. If not considering these extraordinary events, one may be taken to biased conclusions which will not stay relevant in normal conditions.

- we would also like the future analyses to include not only the trends in terms of “stocks” of domain names, but also the Net Growth and the New Registrations provided by the ICANN monthly reports. An increase in stock shall be cross-checked in the long run to make sure that it reflects an actual increase in the demand.

- the absolute number of registrars is not always relevant when studying competition, because registrars are not uniformly active on every TLDs. We might have 1000 registrars each active on one single TLD. The competition among them would be equal to zero, even if there will be competition among some of the TLDs.

- we also suggest to use some concentration indexes such as the HHI (Herfindahl-Hirschmann Index) to measure the level of competition. The basic interpretation of this Index in terms of competitiveness is that the more concentrated a market is, the weakest is the competition (in a case of a monopoly, HHI equals to 1). On the contrary, the less concentrated a market is, the strongest is the competition.

Thanks to its proprietary tools Afnic has been able to calculate the HHI Index of stocks of domain names during the period covered by the Phase II Assessment. They are the following:

HHI Index (ICANN Monthly Reports)	03/2015	06/2015	09/2015	12/2015	03/2016	06/2016
gTLDs (global)	**0,58**	**0,57**	**0,56**	**0,54**	**0,51**	**0,48**
of those Legacy TLDs	*0,61*	*0,62*	*0,62*	*0,62*	*0,61*	*0,62*
of those new TLDs	*0,04*	*0,03*	*0,03*	*0,04*	*0,05*	*0,10*

HHI is calculated by summing the squares of the market shares of the market's ten first players.

At first we can notice that the Legacy TLDs segment is far more concentrated than the New TLDs one. This is because of the volumetric "dominance" of the .COM which squeezes the other Legacy TLDs.

The HHI Index for Legacy TLDs is quite stable over the period, but the HHI Index for New TLDs is increasing faster and faster since the 4th Quarter of 2015, this one being marked by the first wave of "Chinese registrations" and development of low-cost marketing strategies which have initiated a greater concentration of this segment of TLDs.

The Global HHI Index reflects these waves with a tendency to decrease, revealing a stronger competition on the global level of the market.

Since the Legacy HHI Index is stable, and since the New TLD HHI Index shows a less intensive competition in this segment, we are inclined to conclude that the increase in competition on the global scale is actually induced by a growing competition between New TLDs and Legacy TLDs.