

A For-Profit sTLD

Submitted by

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Background

ICANN asked for comments on their March 25th document, “Criteria to Be Used in the Selection of New Sponsored TLDs” hereafter referred to as the **Criteria**. This responds to that request.

Without focusing on the “how,” the **Criteria** indicates the “what” of general minimum requirements for sTLD (sponsored top level domain names) sponsors. In summary, the “what” of the requirements are:

1. Propose an sTLD that addresses the needs and interests of a clearly defined community that benefits from the establishment of the sTLD.
2. Provide a policy formulation environment that is appropriate to the needs and interests of the community.
3. Provide a *mechanism* to ensure responsiveness to membership and user input.

The **Criteria** also stipulates the “how” for sTLD sponsors to meet those requirements. Unfortunately, the “how” may be in conflict with the efficient and effective accomplishment of the “what.” Specifically, the **Criteria** also stipulate that the sponsor must:

1. Be not-for-profit.
2. Operate *under* a policy environment.

The later implies that the sponsor’s operations must be directed and managed by a policy formulation body.

Evaluation

Few *mechanisms* in commercial history have been as effective and responsive in meeting community interests and needs as the *market mechanism*. Its cornerstone is the profit motive.

The market mechanism assures, without the need of quasi-public bureaucratic oversight, that Adam Smith’s “invisible hand” (Wealth of Nations, 1776) automatically serves community members – buyers, sellers and intermediaries. It does so by creating

value and providing a means of exchange so that community needs and interests are met at prices driven to their marginal costs. Moreover, community boundaries are dynamically defined, not by the dictates of some preordained omniscient oversight policy body but by the value community membership brings versus its cost.

A for-profit sTLD sponsor with an appropriately constituted board of directors and an ICANN charter can be confidently expected to automatically direct organizational effort to achieve the “what” of the **Criteria’s** requirements.

Some may argue that the *market mechanism* and its associated profit motive are inappropriate for sTLD sponsorship. They may claim that it will fail to properly represent all the needs and interests of the community, particularly those unable to pay for participation. Some may also argue that the profit motive will create circumstances where an sTLD charter grants market power that can be wielded to produce monopoly profits (rents) for the sponsor. Both situations are possible.

That there may be those unable or unwilling to pay for community participation may be a good thing! A properly chartered, for-profit sTLD sponsor is likely to produce a lower- or value-based priced sTLD structure (as well as a larger community membership) than one bureaucratically administered. Price is likely to be structured around value delivered and for the widest possible definition of community. The boundary criteria will be value determined. That some may not be willing to pay for community membership will be a reflection of insufficient value versus cost.¹ Community boundaries under a for-profit sponsor structure are likely to be determined by millions of individual community members’ self-valuations rather than by a select board of presumably commercially and technically omniscient policy makers.

Technically, it does not make good economic sense to have multiple sTLDs for a given community. This is the very purpose of granting and supporting a community specific sTLD. Therefore, it is possible that an ICANN granted sTLD sponsorship could produce monopoly power (rent) for the sponsor as the sole provider of registration. Avoiding the potential abuse of that charter is, in part, one of ICANN’s roles. They can either carry on that activity or, preferably, assist appropriate and existing regulatory bodies such as the US Department of Justice, the Federal Trade Commission, the State Attorneys General and/or their counterparts in other countries. In any case, legal protections against monopoly abuses are already in place.

Beyond legal protections, market mechanisms and the profit motive itself can be expected to keep in check the exercise of monopoly power (rent). Extracting monopoly profits (and prices) from the promotion and sale of community specific sTLD’s is checked by the need to both create sTLD value and to price its use to compete effectively with existing TLDs such as **.com**, **.net**, **.org** and so forth. Expansion of a community specific sTLD is possible only if its value relative to its price exceeds that of its more general and competitive TLDs.

Evidence of the inherent management and promotion efficiencies of a for-profit versus not-for-profit operation are legion. We can expect, and have seen over and over again, that profit motivated operations are simply more efficient, effective and aggressive in growing service enterprises. An sTLD is no different.

.travel TLD

Thus far focus has been on sTLD's in general. However, the travel community seems the ideal community to charter a for-profit sTLD sponsor.

As an activity, travel accounts for 1 in 12 jobs worldwide.² PhoCusWright Inc. notes that 30% of all online transactions are for travel³. Finally, travel is also one of the fastest growing Internet segments from both a travel information and transactions basis.

It could be in the public interest, and particularly the best interest of the travel industry and its customers, that a for-profit sponsor be given an ICANN charter for a **.travel**. Such a sponsor could address ICANN basic requirements (i.e., the "what's.")

- The sponsor, as a for-profit enterprise, would insure effective oversight of registrars, cost management of operations, and proper focus on marketing, promotion and reasonable prices to drive broad based registration.
- A "hands-on," profit-motivated board of directors could oversee a management team focused on the expansion of and value creation for the **.travel** TLD.
- A broad-based and representative Advisory entity could provide industry input on management policy decisions and feedback from the travel constituency to management and the board.
- Resolution procedures for domain name and other conflicts could be based on ICANN policies (e.g., UDRP) or some modified auction process.

In effect, a for-profit sponsored **.travel** TLD should be viewed positively by ICANN. Having a widely representative advisory body representative of the constituency with accountability for the stability, integrity and utility of the DNS meets a core ICANN goal. Making the operation for-profit ensures an inherent management motivation to control costs and to broadly market and reasonably price the administrative aspects of **.travel**. A more broadly used, rather than restrictively controlled, sTLD has both technical and navigational advantages for the industry and consumers alike.

A key reason for sTLD expansion is to foster improved functionality for navigation and search processes. Unduly burdening sponsor with a policy-generating oversight process would simply limit the expansion of the **.travel** TLD and restrict the capability and creativity of industry players to optimize its Internet use. Moreover, a for-profit sponsor will pro-actively promote the use and effectiveness of the **.travel**. It will be incented to broadly promote it to enterprises already in the industry plus those potentially able to join.

Conclusions

1. A for-profit sTLD sponsor is preferable to a not-for-profit one.
2. Burdening a for-profit sponsor with a policy formulation and administration layer inhibits the rapid, efficient, and cost-effective expansion of community-specific sTLDs.
3. Travel is a logical community for the immediate ICANN chartering of a for-profit sTLD sponsor.

FOOTNOTES

* Bill Carroll is a Visiting Professor of Economics at the Cornell School of Hotel Administration and CEO of Marketing Economics. He has 25 years of senior level experience in the travel industry and has been writing, researching and consulting in the areas of distribution, e-commerce, and marketing for travel industry companies for the past 5 years.

¹ The price paid for use of an sTLD by some community members may actually be negative. For example, in an effort to increase the use and value of an sTLD among a mass consumer market, a sponsor may actually use some pecuniary or non-pecuniary incentives to encourage its adoption and use. As the user base grows, the sTLD's *network value* will increase for those who would drive profit or value from the sTLD and would be willing to pay the sponsor for an sTLD.

² World Tourism Organization, Basic Reference on Tourism Statistics, 2000.

³ PhoCusWright, Inc., Consumer Travel Trend Survey, March 2003.