

BEYOND ROI

- VALUING WEB BUSINESSES



More web-based businesses are being offered for sale than ever before, but there's an air of uncertainty about their value.

TRADITIONAL businesses are valued using a Return on Investment (ROI) multiplier. This is also a major part of most web business valuations. Additionally, there is strong argument for the value of the web infrastructure on offer, including the domain name and search engine rankings.

Seasoned business people will tell you a business is only worth as much as someone will pay for it. Certainly web businesses such as MySpace and Facebook have a history of surprising us with seemingly astronomical valuations. But for the majority of Small to Medium Enterprise (SME) web businesses, the infrastructure has a value which is difficult to determine. If you're looking at buying or selling a web-based business, consider the following factors in addition to the financial data.

DOMAIN NAME

Domain names most certainly have value as we see them traded on the open market all the time. NewZealand.com was purchased by the New Zealand Tourism Board for \$1 million - a price referred to as 'a sound investment'. We've even seen a number of local domain names traded

in recent times including Cairns.com.au. The factors determining the value of a domain name include the following:

Length. Shorter domain names are worth more. They're easier for customers to remember and produce traffic for generic searches.

Generic terms. Location and industry domain names are by far the most valuable to own. While it's unlikely for location domains to be still available, location and industry combinations are the next best thing. If you consider a website that sells accommodation in Sydney, then SydneyAccommodation.com.au would be the most valuable domain in that industry location.

Extensions. Extensions such as .net and .org are worth a fraction of the mighty .com. It's also much better for an Australian web business to own both the .com and .com.au versions of their domain names as this protects them from competition.

Domain name brokerage websites such as sedo.com allow you to search industry and location. If you type in 'cairns', you'll find a long list of domains for sale containing the word 'cairns'. Searching is

free and allows you to gather data on the sale price of similar names.

Search engine rankings. Strong search engine rankings for highly competitive keywords are attractive to prospective purchasers – a major benefit of buying a well-positioned web business.

The bad news is rankings are fickle. They are controlled by a third party - the search engine - over which you have no influence. At any time a search engine can change its ranking algorithm and your ranking can plummet or disappear.

Consider what might happen to the business if the ranking algorithms of the search engines changed so dramatically it lost all ranking. Many web businesses rely on the traffic from their ranking for income. So to enjoy the same income, the business would need to pay for the lost traffic through advertising.

Therefore, calculating an approximate value of search engine ranking can be achieved by substituting the cost of acquiring all traffic through an advertising source such as Google's AdWords program.

Ask for a detailed statistical report on any web business you are looking to buy.

IN WEB

with
Nicky Jurd



It is best if the vendor will allow you to login and view their statistics. Most serious sellers will not be uncomfortable with this. When determining how stable the search engine rankings are, here's what you should look for:

Age. Older websites rank better. The engines consider them a more serious business, and the rankings are less likely to have any penalties attached. A favourable age is four or more years.

Link popularity. A strong link profile means the site is considered an expert in its field, has unique content and is worth endorsing. Search engines rank websites higher when they have a good number of links from high quality websites. You can do a basic check on the link popularity of any website by typing this command into Google; link:www.domain.com.au. Look for a long list of referrers sending traffic. Web business valuations are a very new

industry. In fact, there are not yet any firms in Australia providing this service. It is certainly not an exact science and there are more factors to consider. If you're green to the web consider hiring a website development company to provide consultation, particularly with the statistical analysis.

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Professional

Reliable

Experienced

Qualified



What would you call a technology company that goes the extra distance...

*that has trained staff ready to help when you need it...
that has global brands backed by local service...
that is big enough to look after the largest businesses...
but still small enough to care...*

*What would you call a technology company
that can give you all of this?
Brilliant - that's what.*

