

## **Don't Forget the Website in Asset Appraisal**

By Catherine J. Rein, MBA, AM



### **Introduction**

Websites and other online assets are now a vital component of most businesses, whether machine shop, hospital or publishing house. Valuing the website need not be an overwhelming task, but websites do bring their own unique valuation challenges.

The valuation of online entities, such as websites, is an emerging discipline in a rapidly changing environment. Many of the well-established approaches to valuation applied to tangible assets such as real estate, machinery or art are difficult or impossible to apply in the area of website valuation. This article covers some of the industry trends in website use and valuation.

### **Businesses and Websites**

According to a survey conducted in September of 2008 by Barlow Research<sup>1</sup> of 680 small businesses, drawn from the Dun & Bradstreet list, ranging in size from \$100,000 to \$10 million in annual revenues:

- Over 49% of small businesses currently have a website.
- 13% of small businesses do not have a website but plan to build one in the next 12 months.

Also, the percentage of businesses that have a website, by annual sales size:

- 69% with revenues of \$1 million to \$2.49 million
- 67% with revenues of \$2.5 million to \$4.9 million
- 73% with revenues of \$5 million to \$10 million.

Clearly businesses of all sizes are increasingly relying on websites, blogs and other online marketing assets to promote their products and services. Leaving the website behind when valuing their total assets is doing the client a disservice.

### **The Challenge**

A quick search of the Internet will make the challenge of valuing a website pretty clear. There are numerous website valuation tools available, but finding trusted sources can be difficult. The web is also expanding exponentially and with it comes diversification into all sorts of new website variations.

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<sup>1</sup> Campbell, Anita. "Over 70% of the Largest Small Businesses have a Website."  
<http://www.sellingtonsmallbusinesses.com/70-percent-largest-small-businesses-have-website/>

## The Challenge (continued)

The following table shows a snapshot of the recent auctions on Sitepoint, a large website auction site.<sup>2</sup>

Table 1 – Auction Analysis

Category	Number of Sites	Average Uniques	Average Monthly Page Views	Average Monthly Revenue	Average Age in Months	Average Selling Price
Content Sites	68	9,821	286,580	\$421	14	\$3,069
Blogs	27	15,636	190,552	\$97	10	\$1,161
Forums and Communities	10	19,482	62,660	\$119	10	\$976
Proxy Sites	24	5,841	151,355	\$728	11	\$2,242
Service Sites	52	1,626,932	5,660,309	\$1,753	14	\$15,378
Incentivized Sites	2	300	300	25	5	\$198
Product Selling Sites	36	42,280	81,345	\$3,390	16	\$9,544

This analysis includes the results of 219 website auctions completed between September 29, 2008 and January 9, 2009. These historical results are an interesting guide to website values, but these results do need to be used with caution. The sample size here is very small, especially in a few of the categories. The monthly revenue numbers used above were taken from the seller's statement and not verified for accuracy. All the sale prices were under \$350,000; sale prices above this number might act differently.

Table 2 – Top Ten Most Expensive Websites in Auction Analysis

Metric	Average
Category	Content or Product Selling Site
Age	23 Months
Monthly Earnings	\$17,205
Sale Price	\$107,350
Multiple	6.23 Months

As the price for the websites increased, they were more likely to be content sites or product selling sites. The average age of the website was higher, with the average here of 23 months. The multiple for these sites was just over 6 months of earnings.

The various website categories are defined as:

**Content Sites** include content of all types, including text, video and images. They cover a wide variety of industries and subject matter. The content sites in the above analysis included information on everything from treating chicken pox to dog training techniques to baby name directories.

**Blogs** are information sites that include text, images and links to other sites. This category includes personal blogs, subject blogs and corporate blogs. They cover all types of subject matter and typically sell for less than pure content sites because of the extra work involved to maintain the site.

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<sup>2</sup> Lee, Clinton. The Ultimate Web Site Valuation Guide. July 29<sup>th</sup>, 2008 [www.sitepoint.com/print/web-site-valuation-guide](http://www.sitepoint.com/print/web-site-valuation-guide). Printed February 24, 2009.

**Forums and Communities** are online discussion groups also called newsgroups or conferences. These sites have one of the lower average selling prices in the above analysis because of the challenge of monetizing the site.

**Proxy Sites or Proxy Server** function as a relay between the client and server.

**Service Sites** provide services such as free image sharing, site hosting or file transfer services, to name just a few. These sites command the highest average sale price in the above analysis, but not the highest multiple of monthly earnings. These sites often require much more technical sophistication on the part of the buyer limiting the pool of available buyers.

**Incentivized Sites** include surveys, toolbar installation sites, etc. These are more rare and not an attractive purchase to most website buyers.

**Product Selling Sites** sell physical and digital products. The sites included in the above analysis sell everything from ebooks on how to make money working at home to legal forms to phone accessories. The multiples on these sites have the widest range from low multiples on ebooks to high multiples on physical products with trademark protection.

## Website Valuation

If a website has associated revenue, a full discounted cash flow analysis and financial statement analysis are needed, but this shouldn't be the end of the valuation analysis.

Most brick and mortar businesses do not have revenue associated with their websites, blogs and other online assets. They will likely use their website for the purpose of marketing, customer service or as an information sharing tool. Even if the website does not have revenue tied directly to it, **it still has a value for its domain, design and traffic**. Historical website auction results can still be used to compare the comparable traffic results, site construction characteristics and domain name value. The following table includes some of the considerations to evaluate when comparing a subject website to comparable websites<sup>3</sup>.

Table 3 - Value Considerations

Value Considerations
Domain Name - Should be short, memorable, flexible, transferable.
Traffic - As measured by Google, Alexa, Compete, etc.
Links - Large numbers of them, particularly from big directories and from a wide range of domains.
Demographic - Attractive to a valuable demographic, such as lawyers, doctors, accountants, etc.
Appeal - Appeals to a wide community of loyal visitors, buyers, etc.
Quality Databases
Quality Site Construction - Includes a high cost to recreate the site, high flexibility, etc.
Quality Content - Preferably in a subject area that is consistent, not fast changing.
Earnings - If this is the case, than multiple sources of earnings is desirable.

<sup>3</sup> Lee, Clinton. The Ultimate Web Site Valuation Guide. July 29<sup>th</sup>, 2008 [www.sitepoint.com/print/web-site-valuation-guide](http://www.sitepoint.com/print/web-site-valuation-guide). Printed February 24, 2009.

The first step to finding comparables is to locate acceptable website auction results. There are a number of websites that manage the buying and selling of online assets, including websites, blogs, forums and other such entities. There are also sites that are focused solely on the buying and selling of domain names. A selection of these sites is listed in the table below.

**Table 4 – Website Auction Locations**

<b>Website Auction Locations</b>
www.sitepoint.com
www.ebay.com
www.businessesforsale.com
www.bizbuysell.com
http://forums.digitalpoint.com/forumdisplay.php?f=52
http://www.webhostingtalk.com/forumdisplay.php?forumid=97
http://www.geekvillage.com/forums/forumdisplay.php?s=&forumid=61
http://www.websitebroker.com/
http://www.aardvarkbusiness.net/chat/index.php
<b>Domain Name Auction Locations</b>
www.sedo.com
http://domainstate.com/
http://www.dnforum.com/
http://www.namepros.com/
http://www.afternic.com/

Keep in mind that this segment of the online world, namely websites attached to traditional businesses, will be valued a little differently than the self-contained web businesses commonly found on website auctions. While some of these traditional business websites could conceivably be sold at auction, it's not likely. Most of the domain names and content in these situations are directed to a specific industry or business and would be difficult to transfer.

## **Conclusion**

The valuation of websites connected to brick and mortar businesses should not be neglected. While these websites often do not generate income by themselves, they are an integral part of business today and have a value. To recreate these assets would consume significant time and labor. Valuing online assets need not be an overwhelming task, there are website auction results and cost data available for this purpose.

### **About the Author**

Catherine J. Rein, MBA is president of Sandalwood Valuation & Consulting based in Louisville, Colorado. Her website: [www.sandalwoodvaluation.com](http://www.sandalwoodvaluation.com). She is an Accredited Member of the American Society of Appraisers in Machinery & Equipment. She has a B.S. in Chemical Engineering, an MBA and over fifteen years of experience in financial analysis and strategic planning and over 5 years of experience in the appraisal of machinery, equipment and online assets.