Making the Most of the Draw: The Applicant Auction Conference

By Peter Cramton, 4 December 2012

Yes, it is a bit odd that applicants for top-level domains need to attend the Prioritization Draw in person on December 17. Jetting to LAX to observe a raffle may seem like a waste of time and money. But here is how to make the most of it. Attend the Applicant Auction Conference at the Marriott Santa Monica on December 18.

ICANN has encouraged applicants to resolve the contentions privately, and has established a Last-Resort Auction in the event agreements among applicants cannot be reached. The Applicant Auction is a private auction, specifically designed to resolve contentions efficiently and fairly, using a simple and transparent approach.

Relative to the ICANN Last-Resort Auction, a key benefit of the Applicant Auction is that the applicants themselves retain the auction’s revenue—that is, instead of paying ICANN, applicants will pay each other. Those who value the strings the most—the buyers—will compensate those who do not value the strings as highly—the sellers. With this approach all applicants benefit, whether buyer or seller.

A second important benefit of the Applicant Auction is that the buyers will get the names allocated sooner, and the sellers will be compensated for their efforts to date.

Even if you think it is likely you will participate in an alternative process to resolve contentions, such as another private process or the Last-Resort Auction, attending the Applicant Auction Conference has many benefits.

- You will learn about how bidding incentives fundamentally change in an auction in which the high bidder pays the other bidders, and therefore learn about bidding strategy in any private auction.
- You will learn about bidding in a simultaneous ascending clock auction. This is valuable as this is the format for the Last-Resort Auction. It also is the format for the Applicant Auctions.
- You will use a state-of-the-art auction platform customized for this setting. Participating in a realistic mock auction is the best way to learn about how the auction works and also to learn about bidding strategy.
- You will have an opportunity to debate and influence the many details of the Applicant Auction to address any concerns you may have.

I provided a summary of the Applicant Auction in a prior post. For those interested in further detail, a research paper presenting both the theory and the auction’s performance in the experimental lab is available (slides are also available). The paper has a lot of mathematics and formal testing of the theory. It is not essential that you understand all the details, but it is essential that you, whether large or small, gain at least an intuitive understanding of how the auction works and an appreciation for the issues in bidding strategy. The theory of auctions has
proven to be highly relevant in practice. For this reason, many of the large applicants have already engaged an auction expert to help with these details. One important purpose of our research paper—and indeed the Applicant Auction Conference—is to level the playing field among applicants, so all applicants can resolve string contentions in a rational and efficient manner based on a good understanding of the issues.

**Frequently Asked Questions**

*Q: Is there a single Applicant Auction?*

There are at least two Applicant Auctions. The first is scheduled for March 2013, before the Initial Evaluation. This allows the most rapid resolution of contentions and the lowest transaction costs. Sellers will receive an equal share of the buyer’s payment plus a refund of 70 percent of the $185,000 application fee. The second is scheduled for September 2013, after the Initial Evaluation. This auction makes the most sense for instances in which the transaction costs are less important and the resolution of Initial Evaluation uncertainty is more important.

It is possible that a third auction would occur during the Initial Evaluation, such as in June 2013. This intermediate auction would allow faster resolution of string contentions for those strings that complete the Initial Evaluation in the first three months of the Initial Evaluation process.

*Q: Who determines which auction will be used to resolve string contention?*

The applicants determine the timing. A string is auctioned only if there is unanimous participation. Thus, any applicant has veto power to shift the string to a later auction. If all applicants for a string agree to participate in the first auction, the string will be auctioned in the first auction; if all agree to participate in the second auction, the string will be auctioned in the second auction; if all agree to participate in an alternative auction, the string will be auctioned in the alternative auction; otherwise the string will be auctioned in ICANN’s last-resort auction.

*Q: Is commitment all-or-nothing?*

The commitment to participate in one of the Applicant Auctions is done on a TLD-by-TLD basis. An applicant for several strings may decide to participate in the first auction for some, the second auction for others, and an alternative private auction for still others.

*Q: What is the auction format?*

The auction format is a simultaneous ascending clock auction. This is a powerful, yet simple, auction design that has performed extremely well historically. It is well-suited to the setting and is the auction format adopted by ICANN for the last-resort auction. Participation in the auction is easy for small applicants with simple bidding strategies, yet the format also allows large applicants to manage portfolio and budget concerns. It is a good format for both large and small bidders.
Q: Do you have any experience in auctioning many related items?

Over the last two decades, Cramton Associates has been a leading provider of auction services. We have specialized in innovative high-stake auctions of many related items. Our auctions have proven to be highly successful. My team and I have auctioned goods valued at many tens of billions of dollars.

Q: Why can we trust the auction software?

The software platform has been developed over the last dozen years. The platform is used by governments and major companies in high-stake auction settings around the world. Security and extensive auditing features are essential in these auctions. The auction platform has already been customized for this setting and is now undergoing rigorous testing.

Q: Why can we trust that participants will follow through on bids and commitments?

All commitments including bids are backed up with appropriate means to assure performance. For example, a 20 percent deposit of the bid amount is held by a trustee. The trustee also holds a conditional withdrawal of the application.

Q: How are you being compensated for developing and conducting the auction?

Cramton Associates receives a percentage commission based on the total of the buyers’ payments. In the first Application Auction the commission rate is fixed at 1 percent. This is one-quarter of the minimum commission rate advertised for alternative private auctions. For the second auction the commission rate may be lower or higher depending on the actual volume. The total commission has both a floor and a ceiling.

**Conclusion**

The Applicant Auction is a simple, fair and transparent method to efficiently resolve contention and move new top-level-domains toward the root. I encourage you to learn more at the Applicant Auction Conference on 18 December 2012 from 8:30 am to 5 pm at the Marriott Santa Monica, a 20 minute taxi ride from LAX. Please register online. And follow the latest updates on Twitter @ApplicantAuc.

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