



Underground Secret Society Success Interview:

Michael “Zappy” Zapolin Confidential Information Strictly Reserved For Yanik Silver’s Underground Secret Society Members Only

Yanik Silver: Hey everyone. Welcome. This is Yanik Silver and with me I’ve got another Underground® success story that I’m going to fill you in on. Actually, not quite so underground in the domain world.

We’re going to be talking today to Michael “Zappy” Zapolin. When I first met Zappy it was at an ETR (Early To Rise) conference. I’m pretty sure that’s where you and I met, right?

**Michael
“Zappy”
Zapolin:**

Yup, that was it exactly.

Yanik:

You came up, said hi and told me about all the crazy stuff you were doing in the domain world. It’s a bit of a different world for me, but one that we’re going to get into here.

So Zappy, as his friends call him, is a self-made internet multi-millionaire. Your career began at Drexel Burnham Lambert and Bear Stearns, where you were the youngest vice-president in that company’s

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history, which is pretty cool. Now you're the founder and CEO of Internet Real Estate Group and are involved with all sorts of domain names that people would have heard of, such as beer.com, computer.com, music.com, creditcards.com, diamond.com... I think the list just goes on and on.

We're going to be talking to Zappy today a little bit about the domain world and if there's still an opportunity for us regular people what the state of it is right now. So welcome, Zappy.

Zappy: Thank you. I appreciate it. I'm excited to be here.

Yanik: Yeah, this should be fun. Give us a background on how you got started; going from Bear Stearns or Drexel Burnham – wherever you want to start.

Zappy: I got out of college in 1998 and I started working at Drexel on Wall Street. Drexel had its bubble pop right in the midst of my training and I wound up at Bear Stearns.

I was having what most people would consider a nice career path, being the young vice-president of Bear Stearns, but I really wanted to do something entrepreneurial. Even though being in finance and all – it's an exciting world on Wall Street – I've always felt if I could be talking about my own company as opposed to somebody else's company then I could have 100% conviction and would really know what's happening. So I thought, "I've just got to jump into the entrepreneurial waters and give that a run.

I started looking around at what was interesting to me. The infomercial industry was fledgling at the time – this was the early 90's – and I thought, "Wow, this is so cool. They deregulated television. Anybody could buy television time and make a TV show. This is great. I'll be a TV producer."

My friend and I had seen a concept where somebody was putting businesses on TV, and we said, "We know a lot of businesses. Let's make TV shows about businesses and we can get in on the TV business that way."

We did, and we had an interesting time producing TV shows about businesses and buying the airtime. I wound up like you suggest to everybody: be proactive in your marketing of yourself and your own brand and putting it out there. The internet was not a real factor at the time.

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I was putting out press about what I was doing and I got a call from the Today Show. They said, “Katie Couric wants to talk to somebody about infomercials. We’ve got Tim Hawthorne, who is one of the big Time/Life guys, and we want you to be the other guy.”

So I went on there, and long story short Katie did not like infomercials. She was queuing us up to beat us over the head in the segment. But my show was so untraditional that we really weren’t selling anything on the show and our timing was more premium timing on weekends on CBS and things like that.

Every time she’d try to beat up on me and say, “Oh, you’re on late at night” I’d say, “No Katie, we’re on on Sunday afternoons.” She’d say, “Well you’re trying to sucker people into buying something”, and I’d say, “No. Actually, there’s no buying on the show.” So she was really not liking me on the segment.

At the end of it she said, “Okay, thanks for being here.” I said, “Oh, by the way Katie, if you want to get in touch with me I’m at 1-800...” and gave the number. She was *really* pissed at that point and told me I’d never be back on the show.

Meanwhile, back at my office, the phones started to light up. Hundreds of phone calls were coming in. Every time zone that the show would play we’d get hundreds more calls. My staff was taking messages back at the office, and from that we had an amazing business unfold, literally from that one airing.

Diana Ross was watching the show and she asked me to come to New York and talk to her. Executives from Time/Warner wanted to do something internally with their channel and they approached me so we did a deal with them.

So I built a really nice infomercial business just off of that show. It was going well; I was making real money and having a good time. But in the late 90’s – ’97, ’98 – I started to realize that it was very expensive to make the television show, expensive to change the television show and change the offer, and expensive to buy the airtime.

I was just sitting there thinking, “Where could I get my own 24 hour network where I could play programming 24 hours a day and have 24 hour ordering?” I look and I see the internet, and I’m like, “Oh my God, that’s it. That’s my 24 hour network. I’ll just play my programs all the time and people can order.”

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My theory was that if I could own a category-generic domain name - like beer.com or diamond.com or creditcards.com – if I could do that, by buying one I would already have a certain amount of credibility immediately. I would have a certain amount of traffic already because people would be typing that into their browser. Then as other people came on the internet and started to advertise their business my traffic and things would go up as well. That was my theory.

I said to myself, “Okay, I’ll make a list. If I’m going to try to buy one of these categories soon, like in the next three-to-five years, let me make a list of what categories are big enough categories for me to spend three-to-five years building.” I didn’t want to end up at the end of this thing with “BuildingFormicaTables.com” or “GraniteCounters.com” I’d do all this work and then there’s nobody really big to take me out.

So I thought that if a category was big enough to advertise at the Super Bowl, that’s a big enough category for me to do. I did a list, which I call my Super Bowl test, which is: Who advertises at the Super Bowl? Of course number one is beer, cars, computers, insurance, jewelry – the list goes on.

Number one on the list was beer: beer.com. I thought, “That’s interesting. Let me check out beer.com.” So I type beer.com into my browser – this is 1998 – and up comes this b.s. website, and I use that term loosely. It looked like a 21-year old kid had taken beer.com and registered it. He had pictures of him and his buddies throwing up from drinking too much. It was a really scary site.

Up at the top there was a banner where you’d normally have an advertisement that said, “We need advertisers so we can buy more beer.” I looked this guy up and it turns out he’s in Colorado. And I thought to myself, “This guy’s in Colorado and he can’t find a beer sponsor for beer.com? He really needs some marketing assistance.”

Part of my thinking is to eliminate as much process as possible. I didn’t want to have to go out and find all the beer advertisers and buddy up with them and so forth. I knew some guys who did liquor promotions around the country and they already had these relationships with the big beer companies.

I went to them and said, “Look. We’ve got an opportunity here. Why don’t you buy beer.com with me? We’ll redevelop it as an advertising site. You bring the beer advertisers and we’ll very quickly get the market.”

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They agreed so we went to the kid who owned it, and long story short we said, “How about we pretend that beer.com is worth \$100,000? We’ll give you \$80,000 in cash and we’ll set up a new company. You can keep 20% of the new company.”

He said, “Sounds great.” We gave him the \$80,000; we took beer.com and redeveloped it. We put up a new site that had articles on how to brew beer, rate your favorite beer, get a free beer.com email...

Yanik: Hold on one second and let me stop you right there. The value you put on that of \$100,000 – where did that arbitrary number come from?

Zappy: It was pretty arbitrary, to be honest with you Yanik. I wanted to get the property because I thought I could build it into something significant. I wanted it to seem big enough that it was kind of irresistible.

Yanik: Right, for a guy that’s fiddling around in his basement.

Zappy: Right, exactly. I’m not exactly sure where that came from, but it seemed real and he said, “Oh, great!” He was a young kid. I gave him the \$80,000 and he said, “This is amazing! I’m going to retire to Breckenridge and snowboard the rest of my life on this \$80,000!”

I’m just referencing back to the things you talk about. I wasn’t recreating the entire wheel; I was using the best of what was out there. I plugged in this site that let people rate beers and get a free beer.com email address, but it wasn’t a really deep beer site. I didn’t go into the beer business.

Literally 90 days – three months – after the day I bought it from this kid for \$80,000 I put some press out about what we were doing within the beer industry and I got calls from all the beer companies. I wound up selling it to InterBrew, which is now called InBev – a very large beer company. They now own Budweiser.

Yanik: They’re a Dutch company, right?

Zappy: Exactly. They own a whole portfolio. Long story short, I sold them beer.com for \$7,000,000 three months after I bought it for \$100,000.

Yanik: And that kid got 20% of that?

Zappy: Yeah. It was a great phone call. I remember I called him up and said, “I sold beer.com. You’re getting \$1.4m.” He said, “What?!? You sold it for \$1.4m? Oh, that’s awesome!” I said, “No, you’re getting \$1.4m. I sold it for \$7m.”

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That was how I got into the business. I went right back to my list. The next one I grabbed was diamond.com. I just analyzed it and said, “Looking at this list, what might the internet change? What category on my list might change because of the internet?”

I thought about diamonds, and I thought about all the process that happens between DeBeers mining the diamonds and wholesalers and cutters and retailers. I thought that if the internet could compress this a little bit it would be better for consumers, and that maybe diamond.com would have some real value in the future.

I went to the guys that owned diamond.com. It was a software company, nothing to do with diamonds except their name, which was S.I. Diamond Technology and they had taken the domain. I said, “Here’s what I did with beer.com – let me buy diamond.com. I’ll give you \$300,000 in cash, you keep 20% and I’ll go redevelop this as a diamond portal.” They said, “Sounds great.”

Again, a pretty arbitrary number that I put on it, but I wound up putting up a site again – how to buy diamonds, diamond auctions...

Yanik: And this was in '99 Zappy?

Zappy: This was '99, exactly. The bubble was starting to happen with internet companies and people were throwing money at stuff. I put some press out about what we were doing again, and I got a lot of calls from all the diamond companies. And because it was the bubble there were a lot of venture-backed companies that didn’t seem as real as a partnership. So I just went around and interviewed these guys to try to figure out who the best partner was.

I reached out to DeBeers. I said, ‘Look, I own diamond.com. You should naturally own this. Do you want to buy it for some ridiculous number?’ And they said, “We don’t think we can go direct to consumers anytime soon because we’ll disrupt all of our channel partners. So why don’t you instead speak with one of our big...” – they call them site holders, but these are the big guys who get to buy diamonds from DeBeers.

They matched me up with this guy Benny from Israel. He had \$100m behind him from a soft bank; he had an operating company; he was pretty close to an IPO at the time in the pre-bubble. We wound up doing a deal with Benny, putting diamond.com into that company. We were able to get \$1m on top of what we had paid, so we pulled out a million just a couple of months later, plus we owned a nice chunk of diamond.com, the operating company going forward.

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That's kind of been my model, just to replicate that. The exciting part about it is that it seems like the opportunity is gone because everything's taken, but really this is the best time ever for this space for a few reasons that I can tell you.

Yanik: Yeah, let's break it down to the average guy or gal that might be listening to this and might think, "Holy crap, I don't have \$300,000 I can throw at something." You know, some of the domains are millions of dollars now. So why do you say this is the best time?

Zappy: There are two factors. Number one is internet use and what's happening with the internet. There's this statistic that says 21% of all media is being consumed on the internet by consumers, but only 7% is being spent on advertising on the internet.

What that means is that the usage is going up, but the advertisers are starting to recognize and they're starting to pour more money into online advertising space. They're projecting that it's going to go to 15% in the next few years; that 15% of advertising will be spent online. So as we go from 7% to 15%, each percentage point is \$7 billion more. That's \$50 billion in advertising coming into the internet in the next few years.

All you have to do to get your piece is have credibility and traffic. The good news is that both of those are very simple to get. I established this internet warrior that I want to share with everybody a bit more, but it's really about how to get your credibility and positioning and how to get traffic.

The cool thing is that even though most of the domain names are taken, the good news is that that means the secondary market has really become the primary market. If these domain names were taken by techies and people way-back-when that had no idea about development and no ability to market them, they've just literally sat on these things for 10 or 12 years.

So the opportunity to get these domain names from people who have never developed them or they've never been developed as a brand is very possible, number one. Number two, the technology available to be able to do it is easier to do than ever before.

That's a huge bonus, because the risk is out of development, but one other element of it is that there are new categories that take shape every day. For example, "The Green Revolution" happened. So now, "Boom!" There's a whole other group of domains around the green names: green vehicles, green direct, green ingredients – all these names that had no value before all of a sudden have significant value.

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You can go in and just grab these names and pick them up, or in many cases just register the domain for \$7 a year. Or maybe buy them for \$100, \$200 or even \$500, then turning around and having an asset that's worth tens of thousands of dollars overnight.

Yanik: Let's walk through it on just a little lower level. Where do you recommend for buying domains at the initial level, not at the secondary market?

Zappy: What I've done with Internet Warrior is if you go to InternetWarrior.com and sign up you're going to get access to some tools in addition to the book and things like that.

The tools are really a way to look, in real time, at what is becoming popular; what people are searching for; what the trends are. And when you're staying ahead of the trends, all you have to do is look at the trends; look at the green trend, or the echo-friendly trend. Upside-down mortgage - these words come into our language and they become very valuable instantly, so what I suggest people do is this: If they're passionate about whatever it is - let's say you're passionate about cooking or dog training or whatever it is - if you match that up with the trends, now all of a sudden you've got the ability to find really good domain names and register these domain names.

For example let's say you're really into cooking and you see the green trend starting to break. You say to yourself, "Okay, well how about these: GreenIngredients.com, GreenCookbook.com, GreenRecipes.com." These things already have value and begin to take on more value.

I'll give you an example of two ways to play it. At the very basic level - and anybody who's listening is welcome to pick up some of these names, but I think when you look at the trends, and the macro trend right now is people want to save money or they want to make money. Those are the two macro trends.

As I married that up I was thinking to myself very recently, just a few weeks ago, "If people want to save money on things or use credit cards since people are destroying their credit now, I'll bet that if people don't have credit left they're going to probably start to revert back to laying away products, if you remember layaway."

Yanik: Yeah, I've just seen commercials for that with K-mart.

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Zappy:

Exactly. I think K-mart might have even triggered it in my head. I thought, “Wow, K-mart’s offering layaway. All the stores are going to offer layaway. Wouldn’t it be interesting if, since people don’t have credit on their credit card, everybody starts to layaway? Wouldn’t it be interesting if people didn’t just layaway clothes or gifts or whatever it is; what about some of the more premium things?”

I started to look at the domains around layaway, and I’m registering these domain names. Nobody’s ever had them and I’m getting them for \$7 a year on GoDaddy. I registered LayawayPlasticSurgery.com, LayawayFaceLift.com, LayawayBoats.com... I was getting everything and that was amazing. All these different layaway names. They’re so valuable already. How can they not be taken? Except that this trend has started to break, and just staying with the trend you’re in a great position. That’s number one.

Number two, what’s really amazing is that there are some very, very large portfolio companies that own a million domain names. And they don’t know what’s in there. They don’t really know what they have. They can’t pull the value out of there. They don’t know what’s happening on a daily basis.

For example, companies like BuyDomains. And you and I, Yanik, know Mike Mann, who is a neighbor of yours and started BuyDomains and sold it for tens of millions of dollars. It’s now run by high-owned capital.

BuyDomains is one of those companies that own a million domain names, and there are a few of them. In their portfolio, they don’t see a difference in the algorithm between GreenPackaging.com and BrownPackaging.com. So if they have those two domain names in there they don’t know how much those are worth. They don’t value them any differently. So if you’re looking at the green trend breaking, you go, “Wow, GreenPackaging.com. That’s a great domain name. I’d like to own it. I’d like to do something with it or speculate on it.”

To them, it’s just another word. So there’s a huge opportunity to go into these large portfolio companies and put on your thinking cap about whatever it is you’re passionate about. Maybe it’s marketing, maybe it’s road rallies, sky diving, dog training – whatever it is – and you can cherry pick from these portfolios really valuable stuff.

For example I went in there and just started to grab things that I thought were valuable and I was able to buy 600 domain names. The average price I paid for these domain names was \$800 each. I picked them up one at a time, ten at a time, but my average cost was \$800.

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I have been – unsolicited – selling these domain names for an average sale price of \$20,000.

Yanik: We've got to walk through that process because I think people would definitely like to know about it. So you just talked about finding the domains that these guys have lost in their portfolio and they don't really know what they've got.

I actually bought a domain from Mike from BuyDomains. I bought InternetLifestyle.com, I think for \$1500 maybe, or \$1000. I can't remember. That's become my blog, so that's been a good domain for me.

Zappy: It's funny. There are so many of these guys that you always run into them. But the great thing is that InternetLifestyle is a pretty attractive domain, and it doesn't really mean anything to them. They count how many letters and how much traffic it gets when they have it, so they'll sell them really cheap.

I just went in there and combed through. For example, I bought FertilityDoctors.com for \$850. I sold it – unsolicited, somebody contacted me – for \$55,000 within weeks.

Yanik: Why would they contact you unsolicited, Zappy, instead of two weeks before when they could have gone to wherever and bought it?

Zappy: It's a little bit of luck and timing and that's what you're always up against, for the good and the bad. If you sit on it and think about it somebody that week might decide, "You know what? I'm opening a fertility clinic; I would love to get FertilityDoctors.com. I wonder who has that. "

I put up a site - because had bought 600 of them - I call SimpleDomains.com. And on SimpleDomains, I just list all the domains that I have. When people come I have a form and they can fill it out and bid for the domain. They put a bid in and then I can counteroffer.

I get solicitations all day every day because I own a bunch of domains. People are just starting to tune in; that's what happening. In every single industry around the world business people are sitting down in their boardroom – this is how I envision it going – and say, "We have to slash our marketing budget this year. We have to cut our budget down from \$1m to \$300,000." Or from \$10m to \$3m, or from \$100,000 down to \$30,000. Then they say, "We don't want to pay for anything that we can't measure, and we only want to pay for results." That literally equals

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the internet today. As they cut they're shifting their dollars toward the internet.

The next part of the conversation goes, "So what should we do? What's our internet strategy? What's our domain strategy?" Recently we've seen a lot of companies starting to grab their brands and domain names around their business.

For example, DataRecovery.com, which I might have bought from BuyDomains, if I could, for short money – hundreds of dollars. If somebody asked me what I wanted to sell it for I might have said \$25,000 or \$50,000 for DataRecovery.com.

A company called ESS Systems out of Minnesota just paid \$1.7m for that domain name. Their thinking was that they are in the data recovery business; they can buy this for \$1.7m and use it for the next 10 years, that's \$170,000 a year. It will give them all these advantages with their marketing and on the internet with searches. If they get one customer a month or one a year it's going to pay for itself, so they bought it.

It's really dynamic. I bought CheddarCheese from there for the same thing, \$800. I sold it for \$35,000. WoodCabinets.com, \$800. Sold it for \$27,000.

Yanik: I like these smaller ones because I think people can get their heads around that. So places like BuyDomains – are there any others that you recommend?

Zappy: Yeah, the places to look are BuyDomains.com, SEDO.com which is a marketplace for domains. With Internet Warrior, I wrote a book called Internet Warrior that shows you how to get the right domains and from there how to get traffic from the search engines to your site.

Yanik: I'm looking at the book right here on my desk and it comes with the DVD tutorials and the whole set. I think it's only like \$40 on your site, InternetWarrior.com, so people should check that out.

Zappy: And it comes with access to all the tools so you can find out who owns a domain name and reach out to them. You can look at how many searches are taking place on a certain domain or name or word. You can look at how much people are paying for advertising on that term, and you can literally watch the trends; Google trends and Yahoo!. You can see these things breaking before your eyes. Then you just gather up the ones that already have value.

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Then you can either sit on them, kind of like real estate. You can buy it and sit on it and wait for somebody to come. You can buy it and fix it up a little bit, put something up there so that you get the next level of value. Or if you're really passionate about it the technology is so cheap and so easy that you can just build your own website.

Yanik: Just develop it yourself.

Zappy: Yeah. It's so easy to develop now. You can use a basically free platform like a blogging platform. There's an 18-year old kid. He was passionate about banks and credit offers and things. He starts a site and calls it Bankaholic.com. Got the name for like \$7 and he starts blogging and putting information and content about bank offers.

He lets other people add their comments on. It doesn't cost them anything to create the site. He's just blogging away, talking about this stuff. Two years later – before he was 20 years old – he turned around and sold it to BankRate for \$15m. That just happened.

Yanik: [laughing] That's awesome.

Zappy: That's just him, blogging and putting information out there and letting other people add commentary.

There's a guy up in Vancouver, he's got a site called PlentyOfFish.com. That stands for "plenty of fish in the sea". It's a dating site. He works out of his apartment in Vancouver. His girlfriend is his only employee. He saw Match.com and eHarmony.com all charging \$30 or \$40 a month to put your profile on there. He said to himself, "The technology is basically free. Why don't I let people put up their profiles for free and I'll just put ads from Google up there and hopefully people will pass their profiles around for free."

That's exactly what happened. He was on the cover of Inc. Magazine a few months ago, and he's holding up \$1m and \$2m a month checks from Google for this site that he works out of his apartment.

That's why I say it's the best time ever.

Yanik: I agree. I think it's a golden opportunity for you if you've got an idea, a little bit of gumption, a domain name and you just get at it.

How would you make those sales happen at that \$30,000, \$40,000, \$50,000 level aside from waiting for them to hopefully come and find you? What kind of proactive things would you do?

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Zappy:

The good news is that if you want to be proactive it's really easy to sell these things. Let's say I own CheddarCheese.com or FertilityDoctors.com. All I have to do is – it's so simple – go to Google. I type in Cheddar Cheese or Fertility Doctors. Up at the top and down the side you're going to see all the advertisers who are bidding to be there and willing to pay to click on them for that exact term.

All you have to do is look at the list on the right hand side – who's paying for Google to click on that word – and just send them an email. You can use the tools in InternetWarrior.com to look up who they are, because they're all going to have a website associated with it. Or go to the contact page for that site.

Anybody who's paying for that term is an incredible prospect. I show you with Internet Warrior. All you have to do is contact those people and say, "Hey, by the way, I own FertilityDoctors.com. I'm considering developing it, but for the right price I'm also considering selling it to you or one of your competitors. How much would you be willing to pay for FertilityDoctors.com?" Just literally get a bidding war going.

I was doing this just recently as an exercise with some people. We were just brainstorming and the guy said, "Let's try to do one of these in just five minutes." I said no problem, what are you guys passionate about?

We went around and one guy said home brewing of beer. We used the tools on InternetWarrior.com to show us what other things people are looking at and one of the things they were looking at was "home brewing tips". So we checked that domain – HomeBrewingTips.com.

We type it in and it's available. The guy registers it using GoDaddy for \$7. We go right back two minutes later and type in "home brewing tips" and up come two or three people. One person selling a book, one person selling a little kit, one person selling a system.

He sends an email to the people on there and says, "Hey, I own HomeBrewingTips.com and I'm considering selling. How much would you buy it for?" Boom, a guy sends him back an email and says he'd pay \$100. The guy doesn't want to sell it for \$100. He'd rather have fun with his friends and build this thing up. But the reality of the situation was that we just bought something five minutes earlier for \$7, turned around, and could have sold it for \$100.

Where else can you get those kinds of returns? Speaking about our mutual friend Mike Mann – he does this all day every day. He buys domains.

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Let's just pull the picture back to the lowest hanging fruit. Every single day, 30,000 domain names that were already registered in the past don't get repaid for. Somebody doesn't repay for them either because they forgot about them, maybe they decided they weren't going to develop it, maybe they've lost interest, and maybe they've developed something else. But they don't repay to keep that domain name so it falls back into the system for somebody else to pick it up.

So what Mike Mann does is go through those names, as do a bunch of other people, and the ones that he likes he goes ahead and picks up for typically \$7. Sometimes with some of these registrars, if they think there's some value to them instead of just letting you register them they'll ask for a bid, and those kind you can buy for \$50 or \$60.

So Mike Mann buys these names for \$50 or \$60, or even \$7, and turns around and sells them for \$200, \$300, \$500, or \$1000 on an every-single-day basis. He'll buy IceCreamIsland for \$7 and somebody will come and give him \$750. He'll do NewAgeMinistries that somebody had – it falls back in and he gets it for \$7, turns around and sells it for \$700.

He does this all day every day, and anybody who is listening to this Yanik has the opportunity to go to InternetWarrior for the resources, but you can go to SnapNames and some of these places and monitor what's dropping. Then using the InternetWarrior technique you pick the ones that have value to people. Then you turn around and you proactively sell them to people who should own them or if you want to just kick back, you can hang out and wait for somebody to come along that really needs it.

Yanik: Cool. I've got a quick question for you: is .com still the king?

Zappy: Still the king. My theory is that you want to buy the .com because if you don't you have a few challenges. Number one, the search engines. In their algorithms they rank .coms higher because there are so many spammers out there and so much illegal activity. If they see .com, they think that has business value so they assume that somebody's going to do the right thing with it. If it's an .info or .org or .biz or something like that there's no business value, so a lot of people use those to spam people or to rip people off. So the search engines, no matter what you do, if you don't have a good .com they may not index you in search and give you the traffic that you deserve.

Number two is if you exit. Let's say you own CreditCards.com, which is one that I owned and developed at one point. If I own CreditCards.com

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and somebody else decides they're going to advertise CreditCards.biz or CreditCards.info or whatever it is, they spend money. If I hear that on the radio or whatever, if I see it online, two weeks later I'm thinking about credit cards and I'm going to think, "Oh yeah, CreditCards.com."

Yanik: Right, just like the 800 numbers.

Zappy: Right, exactly. You nailed it. The more extensions they come out with – the 877, the 866 – the more valuable that 800 number becomes.

Yanik: Yeah, okay. That's perfect.

So you've been involved in some pretty big deals. You've been involved in some littler, like \$20,000, \$30,000, \$50,000 deals, which I'm sure people listening would also like to get involved in. What are your best negotiation tips that you've picked up over the years?

Zappy: What I like to do is to try to add value to things, kind of like in real estate. If you buy a property on the beach and it's just a parking lot of sand that's a raw piece of land. You're only going to get the raw value of that. If you go ahead and draw up some building plans and put a fence around it with a picture of what the building might look like, all of a sudden you've elevated it to a business value and there's an opportunity. If somebody wanted to buy it they would have to pay you the premium price so that you don't go and develop it.

I think that's really important with domains because they're so cheap to develop. It's practically free. So if you have a domain and you don't do anything with it, the most you can get is domain value. If you put a little elbow grease to it and just put up a site and put up some content you're going to get business value.

Just to share with you how the Beer.com negotiation went, I went up to Toronto to see InterBrew, and they said, "What do you want to do?" I said, "I'm having fun. I'm developing the site, I'm getting traffic, I'm giving away all these emails and I'm building it. I'm having a blast." Instead of saying, "I own the domain name. I'm sitting on it waiting for someone to pay a premium."

So they said, "How much do you want?" I said, "I don't know. I'm not really into selling it, but you tell me." They said, "Okay, how about \$1m? We'll give you \$1m. Isn't that amazing? We'll give you \$1m and you'll be a millionaire!" I said, "Eh, not really interested."

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So they said, “Okay, what do you think it’s worth?” I said, “Based on what we’re doing, my partners and I probably wouldn’t sell this thing for less than \$10m.”

They were like, “What?!? \$10m? That’s crazy, this is a domain name.” I said, “No, no, no. This is a business that we’re developing. We’ve got 100,000 people that have signed up for emails, we’re getting 500 more than sign up every day. If you want to advertise or you want to talk to us a year from now when we’ve got 1,000,000 people with beer.com emails, we can do that too.”

So the guy said, “Alright, how about \$5m?”

Yanik: Was it literally you and one guy sitting there?

Zappy: Yeah, it was the CEO of LaBatt’s who was representing it and there was a guy from Mackenzie up in Toronto. And he said, “Alright, \$5m.” And I said, “\$8m.” And they said, “Ah, well, that’s crazy... (Sputtering and stuttering). That doesn’t make any sense.” I said, “No problem. You can be an advertiser; we might come out with our own beer called Beer.com.” They said, “Okay, hold on. \$7m.” I said, “Done. Let’s do it.”

And that was it. But again, if I hadn’t been proactive in trying to change the value of what it was... Almost like real estate. You buy a raw piece of land, you want to cut the grass, and then you want to put up a frame or whatever. Every time you do that there’s more and more value. And I think that from a negotiation standpoint that’s number one.

Number two is, I think, Harvard Business School 101: Ask for a crazy number first. You can always back off of it, but you never know what the intent or the value to the other party is, so you might as well throw it out there. It can’t hurt.

Yanik: That’s pretty awesome. That’s a great analogy, talking about real estate and how you build it up and how you add more value. But what I really took away from that was the fact that you were – and I don’t know if this is the way you were playing it – truly going to just walk away if it wasn’t at the number that you wanted.

Zappy: It was a bit of gamesmanship, but at the same time I knew I had something. It wasn’t like if I didn’t take the offer that I would never get a beer advertiser or I couldn’t sell it to them later.

I wanted to say for anybody listening: I’ve made some mistakes as well on the selling-too-early side of things. CreditCards.com is that example. I bought CreditCards.com coming out of the internet bubble. I wanted a

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category that was a non-physical product and I thought about mortgages and credit cards, so I approached the owners of CreditCards.com and they were a back-end credit card processing company.

I said to them, “I’d like to develop this.” They said, “Oh, great. We’re in the back-end credit card processing and we’d like to distance ourselves from the internet bubble and the dot coms, so here: take CreditCards.com.”

I bought CreditCards.com in 2001 for \$100,000. I put up a site all about how to find the right credit card, good credit, bad credit, airline miles – if you clicked on airline miles, I’d show you five or six offers of credit cards that you might be interested in. And if you filled out an application I would get paid by the credit card company.

So I set that up. If you have a good .com and you put up content you’re going to get good rankings in the search engines. My traffic was growing and growing and growing, and every month my partners and I would make more and more money. We would just treat it like a personal ATM machine at the end of the month. We’d take the money and divvy it up.

A guy came to us in 2004 that was really passionate about the financial space. And he said to us, “I’m doing really well in this category, but if I were CreditCards.com I’d be doing even better. Let’s do some kind of a deal. Let’s merge. Let’s do something.”

And I made a mistake, and that was that I didn’t recognize how important the passion element was, how far his passion could take something. So my partners, who had not had some of the exits that I’d had said, “Well let’s just sell it to this guy for cash. Let’s come up with the best cash number.”

So he said, “Okay. I’ll give you \$2.75m in cash.” Which again, on a \$100,000 investment when we’d taken a bunch of money out every month, is a nice return. All our investors made money, we all made money – it was great.

We sold it to him in 2004. He immediately started to put money into buying search engine traffic on Google, and as he bought traffic against his really good domain name he started to do more and more credit card applications. He then went back to all the credit card companies and said, “Instead of \$50 per card signed up I want you to pay me \$100 per card because I’m sending you so many.” They said, “No problem.” They increased the bounty they were giving him.

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So the long story short, two years Yanik, almost to the day that we sold it to him – we sold in 2004 – in 2006, he sold it to American Capital for \$133m. He kept a couple million shares of the stock which now has like a \$400m or \$500m cap on it.

It's the same website, the same logo, the same business model. Nothing has changed except they cranked it up and this guy was really passionate about it. So I left \$100m in two years on the table.

So I decided not to jump out the window because I felt like I had really good domains like Chocolate.com and Debt.com and things like that still had a lot to do.

Yanik: That's funny. One of my buddies – I don't think he wants me to reveal which domain it was, but it was a four-letter domain name – he sold it really, really early. He sold it for \$50,000 or something. He thought he'd just hit the mother lode. And the dude turned around and sold it to someone else for \$1m, and he said, "Goddamn." He really wanted to throw himself out the window.

Zappy: It's really tough, because unlike traditional real estate there are really no comps out there. The great thing and the fun thing about the domain space is that whatever you can negotiate is what you can ask; that's what it's worth. However badly someone needs it is what they're willing to pay.

There are no comps. I can buy CheddarCheese.com one day for \$800, turn around and sell it for \$27,000 the next day. There's nothing to prevent that.

Yanik: What's your take on auctions in the different places to monitor or go sell your domains?

Zappy: It's a pretty good way to go if you want to make some money. What I think happens there is that most of the bidding is done by domainers and domain speculators. It's not end users who will pay you the ultimate premium. It's somebody who wants to buy it because they think they can maybe flip it to an end user.

So even though I might buy something for \$1000 and sell it for \$15,000 or \$20,000 – which sounds great – that person who's buying it isn't the end user who would have really paid an incredible premium if I was just a little bit more proactive and went after the end users.

I like to go after the end users. I can't say I always do it with all my domains, but I always like to constantly keep in front of the category,

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whether that's reaching out to the different players in the category and just saying, "Hey, by the way, I own the domain name. If you ever want to do a deal or anything let me know." Just stay on their radar.

Or of course putting out press online. Putting out awareness and press creates a lot of credibility for what you're talking about. In boardrooms and companies across the country it's still so early.

I was having a conversation with somebody that you probably know well and that your folks probably know, Rich Schefren. I think he's a great marketer and a great mind. We were talking about domains, and a few months back he said to me, "What do you think about BusinessCoaching.com or BusinessCoaches.com? Those would be great names, right?" I said, "Number one, without a doubt, you should own that. And number two, how is it that this very successful marketing guy is just tuning into the real upside an opportunity in this space?"

I think if you think about that, that's why it's such an amazing time. Because really smart people are just figuring out now, and the slow people and the big companies who pay the huge, huge premiums haven't even figured it out yet, so you can just sort of slide in there and grab what's valuable.

Yanik: Let me ask you about your investment philosophy, or I guess your exit philosophy, because there's massive leverage when you buy and when you sell, but how are you looking for recurring revenue? Like with CreditCards.com you guys were taking a lot out every month. That was a nice little piggy bank and then was the ultimate payday. What's your philosophy on balancing out monthly revenue and recurring revenue versus that big final exit?

Zappy: Obviously, like any business, cash is king, so you want to make sure that you don't have to starve in between exits. When you believe a lot in the upside or the big payday sometimes you get yourself way down the road and you get hungry. It can even make you do a bad deal.

I think it's important to try to get that balance. But the beautiful thing is that right now, if you're buying the right category domains, you're putting up a site, you're harvesting the search engines like I show you to do with InternetWarrior, then you're in an amazing position to have the cash flow while you're building the brand value.

A couple of examples of that: About a year or year and a half ago, I was watching TV and was thinking that every other commercial was an insurance company. Geico, State Farm, AIG. Every one of them was saying, "Go online, get a quote, save money." They were just branding

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the concept. None of them were necessarily getting their brand all the way across, but I thought to myself, “Wow, I would love to own Insurance.com.” But I happen to know that that’s a very large successful business worth hundreds of millions of dollars.

But I thought to myself, ‘This whole insurance quote thing – they’ve got everybody queued up and understanding that you just go online, get a quote and save money. Insurance.com is gone, but what if I instead got InsuranceQuote.com? That would be a more descriptive term; I would probably have a more qualified person who would type that into the search engine or types InsuranceQuotes.com into their browser. That’s got to be a home run.’”

I contacted the guy who owns it and I said, “I have this Internet Warrior approach where I put up a site with search engine friendly content, the same thing I always do, and the search engines find me. I get all this traffic and then I put advertisers in there to monetize it. I won’t give you any cash, but you put InsuranceQuotes.com into a new company, give us \$50,000 or so to develop the concept, and you can take the first money out and we’ll do an equity split once you have your money back.”

He said, “Sounds great.” I put up the site, search engine content; I put all the content for that. I don’t go into the insurance business; I just put somebody else’s application up. I start to get all the natural traffic from the search engines and we start to do \$30,000, \$40,000, \$50,000 a month in commissions. No employees, no overhead, just a website that people were typing in and finding in search.

What was amazing to me, and this is the power of the brand and the generic domain name that people can tap into right now, was that of the people who come to InsuranceQuotes.com, 40% of the people who come to the home page fill out the application. Which is huge. I would have thought it might be 5% of the people.

Yanik: Yeah, that’s really huge.

Zappy: But it’s incredible. The content’s there and they go, “Okay, I trust this. If this were InsuranceQuotes.edu.info, these guys might be in Romania, they might be trying to steal my identity...hmm.”

But InsuranceQuotes.com, they get there and they think, “They certainly have better things to do than stealing my information, so I’m going to feel comfortable and put my information in here.”

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40% of the people fill out the application. We get paid \$15 or so per application, and then the person that buys that for \$15 turns around and sells it five or six times for \$8 or \$10.

Once we got to critical mass we said, "Let's hire somebody. Let's get a little bit more savvy. We're making \$30,000 or \$40,000 a month doing nothing. Let's take the application on our own site so we keep the customer name and data. Then let's go out and sell this lead five or six times for \$8 or \$10 ourselves. With the same traffic we could be making four or five times as much money as we're making now." And that's what we're doing now.

Yanik: That's pretty awesome. And if people were paying attention there, you've talked about a bunch of big deals that you've done and I love the thinking behind it. It's all about, "How do I take an existing asset – InsuranceQuotes, Beer.com – and make that person who already owns it a stakeholder in the game and at the same time just crazily increase the value so that they walk away with a really nice payday for being involved?"

Zappy: I like that too. It's so cool because it's like if you own the domain name you're walking into the industry, the category, with an 800 lb. gorilla, so you can either get a chunk of the industry, or you can partner with somebody who's passionate or somebody who's already successful and you're just leveraging yourself down. I love that, for one.

Two, on the low end I wanted to give you a couple more examples. Like we talked about with Mike Mann, I'm just going to read you a few of these domains that drop every day, and I think anybody who's listening can just do this for 10 minutes a day, an hour a day whenever they want to.

Just very recently, in the last month he sent me a list of the domains that he's bought for \$7 and turned around and sold. Mike Mann bought GroversMill.com for \$7, turned around and sold it for \$750. He bought TractorCentral.com for \$7, turned around and sold it for \$3000. CherishedHomesRealty, bought it for \$7, sold it for \$200. TheMortgageSpecialist.com, bought it for \$7, sold it for \$2000. PresentationProducts.com, bought it for \$7, sold it for \$1250. HighSchoolSportsCenter.com, bought it for \$7, sold it for \$250. JuniperMoon.com, bought it for \$7, sold it for \$250.

The list is just on and on. AngelRoofing.com, bought it for \$7, sold it for \$250. I could read this list for the next half hour. JusticeMatters.com, bought it for \$7, sold it for \$3000. And he's doing this every single day.

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At the high end of the market there's incredible money to be made. At the low end of the market there's incredible money to be made. We're all so lucky we're at the beginning of the internet; we're in like the second inning of the internet's development. Everybody, by the grace of God, is just living that right now, and I think you've got to just tap into that. Take your passion and just go at it. Make sure you own your piece of that today value, and then the \$50 billion more dollars that's coming in the next few years. Take your piece. It's so simple.

Yanik: That's awesome. So once again, InternetWarrior.com is where people can check out the book, and I definitely suggest you do that, especially the DVD tutorials that come with it. They're a really nice addition to the book.

I've got one last question for you and then we're going to wrap up. How do I get to buy a domain that I really want for the cheapest price from somebody that owns it? Is there an easy solution to that?

Zappy: It really depends. What I show you with InternetWarrior, number one, is how to evaluate it; how to evaluate what they're doing with it. Are they developing it or are they just speculating on it? Do they have a business in this space? Do they have the capability? I show you how to evaluate all that, and then once you've evaluated that I show you the techniques to go at those people and basically make the case for why it's not worth a lot but you're willing to give them something for it.

I always say to these folks, "It's a domain name. A lot of work has to be done or a lot of value has to be added, and I'm passionate about it." And if they're not then it's probably never going to get built so they might as well sell it to me.

Yanik: That's interesting. What about when you can't really find who it is? They're not responding to you. Would you use a third party service?

Zappy: I actually give you two or three ways within InternetWarrior to track people down that are not the most obvious ways. If it's something that's very strategic for your business and you're just not getting the response you need I think a third party could help you to execute it. But I think I would exhaust your own channels first, just because generally a, you're going to pay a markup, but sometimes the broker or whoever is in the middle is more interested in getting the deal done than making sure that you get the best price; they want a transaction to take place.

There's definitely a bunch of information within the book and also the DVD that I give you. It's like a full-on lecture on buying and selling domains and how to source who owns them and exact techniques on

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how to offer and what to offer, what to say first. Again, it's very important: you don't want to throw out a price. When you're buying a domain you really want to come in with Negotiation 101 and say, "Hey, is this thing for sale? I'm considering doing something in the category. Are you interested in selling?"

I think a lot of people make a mistake. Instead of saying that, they say, "Would you sell this thing for \$1000 or \$500?" And they box themselves into overpaying when in fact, who knows, maybe the person was going to let it drop, or maybe they just realized they weren't going to develop it, or they're developing something else and this just doesn't have the same value to them that it does to you.

Yanik: Right. That's perfect. Well hey, thank you so much Zappy. Once again, InternetWarrior.com, people should check that out. This has been a great education around big deals, which are pretty damn exciting to hear about, as well as the little deals that can move you up the food chain essentially to start doing those big deals.

Zappy: It's a really great time. I'm always stunned what's out there. I put on my thinking cap and I try to think to myself based on what trends are breaking and what opportunities are there. Literally every day there's gold that stands out. You can still get the stuff really cheap. Just focus on what you're passionate about. That's what I think is going to give you the strategic advantage over everybody else.

That's why people always say to me, "Why are you telling people these secrets? Why don't you just go get these domains yourself?" I said, "Everybody's passionate about something different. I don't know about cooking. I don't know about the keywords there. I don't know about the green economy. I don't know about wind energy. I can't get those names. Let somebody else go get those names." So much opportunity, and hopefully people just jump in because the timing couldn't be better.

Yanik: That's awesome. That is awesome. Thanks Zappy, I really appreciate it.

Zappy: Alright Yanik, you keep it up. I really enjoy watching you and learning a lot. Thank you!

Yanik: Alright, talk to you soon. Bye!