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Strategic Spotlight

Blockchain Technology: NFTs



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Remember when you were a kid and collected baseball cards, seashells, or pretty much anything of value? There was a slew of emotions – excitement, anxiety, elation, pride – that came with the hunting, gathering, and showcasing of your collection. For those who collect things even today – from sneakers to restaurant matchbooks – the feelings and connection to the community those tokens belong to are likely more empowering, inclusive, and invigorating than the item collected itself.

With baseball cards somewhat a memory of a time gone by, collectors have now extended their hands – and wallets - to the digital realm with the desire to own and collect digital assets including images, GIFs, songs, and videos. Some of these digital collectors' items have generated big, headline-generating interest - and one such digital item just sold for \$69 Million. So, it's no surprise that everyone is talking about NFTs right now. As NFTs evolve – representing both physical and digital items - understanding what they are, how they fit into the larger cryptocurrency and blockchain infrastructure, and what this could mean for your brands are important to tracking the evolution of crypto.



While NFTs may be a shorter-term trend, the popularity of NFTs highlights two critical things:

01

Consumer Behavior:

It's important to understand the trends driving consumer interest in overall cryptocurrency and blockchain, and the notion of tapping into the excitement around scarcity that can be leveraged by brands for both NFT based opportunities and overall marketing strategies. Right now, a lot of people are at home, with money to spend, and not a lot of people to spend it with. Many NFTs offer a form of community and a way to learn about crypto in a digestible way.



02

Crypto/Blockchain Landscape:

NFT is a tangible, consumer-facing example of what crypto and blockchain technology can yield. Comparably, when Pokémon Go exploded in user popularity, nobody was talking about 'Augmented Reality.' The comfort around using AR came as a result of focusing on the usage, not the technology. We predict that NFT, cryptocurrencies – and other applications of blockchain – will do the same for blockchain technology.

What is an NFT?

To understand what an NFT is, we first must take a step back and understand another buzz word: cryptocurrency.

Cryptocurrency is a digital version of currency that can be used to buy and sell goods or services, using an online ledger (i.e., a record-keeping system maintaining participants' identities, balances and transactions) with strong cryptography to secure online sales and purchases. A token is an asset (physical or digital) that serves as a representation of something (anything, really) in any given ecosystem that could serve as a value, a voting right, etc. So, in the case of cryptocurrency, a fungible token (FT) can consist of cryptocurrencies (e.g., Bitcoin) or traditional currencies (e.g., USD) that have consistent value (i.e., \$10 equals \$10, whether you trade that amount in ten one-dollar bills, two five-dollar bills, or one ten-dollar bill).

Non-fungible tokens (NFTs) are a type of cryptocurrency-based token that represents something (anything) unique and serves as a digital smart contract that represents ownership of something. Think of it as a smart contract that is used to secure a digital item (e.g., a virtual art JPEG, a digital GIF, digital videos and audio, or even a tokenized version of Jack Dorsey's first tweet) and keep that digital item safe from replication on a blockchain; a distributed, decentralized, public ledger. Once you own an NFT, you have the digital rights to distribute, license, or even resell it within the limitations that the NFT creator programmed into the digital asset's usage. Unlike cryptocurrencies such as Bitcoin, or Ethereum, or the many altcoins rolling out, NFTs are not mutually interchangeable and are thus not fungible (i.e., mutually interchangeable) in nature. Much like a priceless piece of art, NFTs do not equal each other as each has a unique value based on people's interest in acquiring them.





Digital Wallets is another term to know; they allow people who want to make blockchain-based transactions to hold NFTs and other cryptocurrencies, serving as essentially the ‘mailing address’ where cryptocurrencies can be sent to and from when it comes to buying, selling, and trading.

And of course, NFTs are spurring the creation of ways to bring digital creative into the real world with products like Qonos, a digital frame specifically created for NFT art and collectibles.

Why should you care about NFTs?

It’s all a little confusing, but NFTs are becoming big business. NFTs create connection between creator and purchaser. You may buy an NFT as an investment strategy – comparable to how people invest in various cryptocurrencies or real-life art – or simply because something brings you joy.

NFTs may be used in the future to represent ownership for more than just collectibles, but this is an example of emerging technology starting with more basic, immediate usage which enables consumers to get comfortable with it. People should care because NFTs are an evolved version of certifying ownership. For example, if the NFL started using NFTs to sell tickets, they can earn a % of the sale every time the ticket is sold to another person. They could use the tech to track, regulate and combat scalping.

Examples of popular NFTs in action

NBA Top Shot

The NBA-sanctioned NBA Top Shot is basically the 2021 version of sport trading cards you had as a kid; it's a blockchain-based online marketplace platform where virtual packs of cards can be purchased, showcased or re-sold via the same marketplace, with the 'cards' touting NBA-licensed video highlights of critical moments in NBA history. Created via a joint venture between the National Basketball Association, the NBA Players Association, and Dapper Labs - the goal of NBA Top Shot, according to Dapper CEO Roham Gharegozlou, is to create a "revolutionary new experience in which jaw-dropping plays and unforgettable highlights become collectibles that you can own forever."

Christie's:

The art house sold a [JPG file that only exists digitally](#) (touted as "a unique work in the history of digital art") by the digital artist, Beeple, via online auction for \$69.3 million, the third-highest auction price achieved for a living artist, according to Christie's.

CryptoPunks

One of the first NFTs on the Ethereum blockchain, the platform touts 10,000 uniquely generated algorithm-created characters. 9,000 of them were given away in 2017 for trading and/or collecting. And, with no two exactly alike and proof of ownership stored on the Ethereum blockchain, many cite CryptoPunks as the platform that sparked the cryptoart trend.

Valuables:

An NFT marketplace for tweets, Valuables allows Twitter users to sell their tweets. Twitter CEO Jack Dorsey, recently sold his first tweet ever; with bidding reaching \$2.5 million for charity. It's an interesting look at how social platforms can potentially monetize users and empower those users to monetize their own social content.

Elon Musk:

CEO of SpaceX and Tesla, Elon Musk tweeted on March 15 "I'm selling this song about NFTs as an NFT" alongside a short video of a gold trophy and techno track featuring the lyrics "NFT for your vanity. Computers never sleep. It's verified. It's guaranteed." Musk's tweet (caption, clip, and song), was listed for sale as an NFT and generated a bid of \$1.1 million within 24 hours.

OpenSea

One of the oldest NFT marketplaces, OpenSea serves as a clearinghouse for nearly any form of NFT, making it the "largest marketplace for digital goods." Goods range from Rob Gronkowski's GRONK Championship Collection (the first pro-athlete to launch NFTs) to Kings Of Leon's latest album (one of the first major records released as a collection of digital NFTs). The album was released in three NFT formats designed to unite "the power of the band's music and their new album visuals to deconstruct, degenerate, and distort iconic band symbols and photography."



Why are NFTs trending?

The power of scarcity - limited edition, limited time – is a classic tactic that marketers use to drive excitement for products and services. From McDonald’s Happy Meal toys to Starbucks’ Unicorn Frappuccino’s, limited edition products tap into the collective cultural FOMO and ‘need’ to get involved. Crypto collectables take advantage of human nature to [drive sales volume](#). NBA Top Shot, for example, taps into EQ-driven needs with limited “drops” of card packs that consumers must digitally queue up for to simply get the [chance](#) to buy a digital card. It also taps into the cultural need for new content, new experiences, new entertainment, and new topics of conversation. Particularly at a time when activities are more limited due to the pandemic. A time when people, more than ever before, are actively seeking new skills, hobbies, entertainment avenues, and communities to connect with. Platforms, which offer limited edition digital products, like NBA Top Shot, the opportunity to dabble in cryptocurrency (which is exceptionally trendy right now, no matter your POV on it) and have the added cultural foundation of a trusted brand (the NBA) have all the necessary ingredients to succeed in a pandemic world.





Like many things in the world, scarcity is what is driving the curiosity around NFT platforms. As [Mark Cuban explained](#) about NBA Top Shot, “What is something worth? A building, a pen, a stock, a cryptocurrency, gold, Intellectual property, any asset? Valuing something we own is more of an art than science.” When it comes to NBA Top Shot confusion amongst non-users, Cuban notes that “some people might complain that I can get the same video on the internet anywhere anytime and watch it...Well, guess what, I can get the same picture on any traditional, physical card on the internet and print it out, and that doesn't change the value of the card...[with Top Shot] you have all the fun, none of those risks [i.e. selling/shipping physical cards issues], and the value is still set by the same laws of supply and demand.”

NFT platforms are also trending because of the vested interest of the crypto community. There are millions of people out there with assets in crypto looking to push this digital economy to grow. Any product/service that is enabled by using crypto will be looked at by the crypto community to further integrate real world use cases instead of just stores of value. The crypto community, and entrepreneurs with major stakes in the category (like Winklevoss twins, who own the Gemini-backed Nifty Gateway NFT exchange) are going to make and push out use cases like NFTs because they want to see their Bitcoin/Ethereum value increase. Many people believe the individuals buying NFT art for hundreds of thousands and even millions are cryptocurrency “whales” looking to stimulate the overall cryptocurrency marketplace by generating headlines and inspiring creators to get involved in crypto-based networks. This in turn increases the value of the “whale’s” crypto holdings.



Opportunity for marketers

Loyalty has long been a tool brands have used to drive repeat connection, engagement, and purchase. Be it through fan clubs, gift cards, loyalty programs, social platforms, insider-only events, content, swag, or other tools - creating emotional connections through loyalty-based tactics has long paid off for brands. The ability to offer unique, exclusive, irreplicable, insider-only offerings - even if they are “only” digital - makes NFTs an interesting possibility for brands. Social tokens have the potential to be used to drive scarcity (and, thus, interest), engagement, and brand interactions. The notion of limited-edition collectables taps into demands around scarcity, loyalty, and real-time brand engagement. And the concepts of cryptocurrency - brands being able to create their own tokens of value – and the blockchain – ensuring the safety, and efficiency of these investments – offer the chance for branded socially-driven loyalty tools that capture consumers’ attention.



How to use NFT in your next campaign

Brands interested in getting into the space need to embrace both blockchain and decentralization. We recommend proceeding with educated caution. Look at NFTs as a chance to connect with consumers in new ways, but - more importantly - to use your interest as a chance to get more comfortable with cryptocurrency and blockchain. Only then can you better evaluate how you can leverage it on the front and back ends in the coming months and years.

Also, keep in mind that those who collect (e.g., digital art, CryptoPunks, Top Shot 'cards') are often exceptionally loyal consumers of the brand (the platform/NFT). It's relatively easy for fans to collect and trade NFT assets. Just like limited edition products and merchandise that you see go on eBay or drive store traffic, you can use blockchain technology to create a marketplace of your own (comparable to NBA Top Shot) or tap into other markets designed to support NFTs that don't need their own platform (e.g., OpenSea). This marketplace could host a limited-edition product or goods release like art, a movie, or a soundtrack. Nearly anything can translate creatively in the NFT world. And that truly means anything your mind can conjure. For example, [Decentraland](#) - a blockchain-based virtual reality platform - sells virtual real estate, with virtual land grabs going for millions of US dollars to date.

We recommend that you activate with NFTs only if there is a powerful way to organically leverage the technology. For example, Lollapalooza using NFTs to sell music festival ticket packages is a great example of an organic integration.

Naturally, industries that drive culture (like entertainment and art) as well as those that can naturally tap into the power of nostalgia are best apt for NFT testing shorter term. We're going to soon see NFT investments of streetwear, art, sneakers, etc. become visible on digital items like your online avatar, giving them more utility and value. And brands like Gap, who inked agreements with culture-driving creators like Kanye West, can tap into their partnership to successfully test NFT.

Perhaps thinking backwards is the way to unlock creativity; how do you want your consumer to utilize your digital asset once they buy or trade to acquire it? As part of their digital online experience (e.g., an avatar)? A private online experience (e.g., unlocking exclusive content for them and them alone)? Connecting to a community of likeminded fans (e.g., content that requires staying on a platform or ecosystem)? It's still very early days for blockchain-based applications, and the opportunities are limited by your imagination and understanding of the world of crypto. As this playground rapidly moves forward, the good news is that we have the chance to shape what a brand offering can look like in this space and learn alongside consumers as to how to unlock the power of the blockchain.





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