

The NFTs: Business Proposition or Sort Of

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1 The NFT Platform

1.1 The 2 Types of NFT Platforms

To simplify, there are 2 types of NFT platforms: the gaming platforms like Roblox and the non-gaming marketplaces like OpenSea.

To qualify as a "real" NFT platform, a platform must not only be a marketing platform at the front-end but must also operate on a blockchain infrastructure at the back-end. However, generically, those platforms which meet the first marketing platform criterion, without being on blockchain, are also considered to be NFT platforms. Roblox, described below, is one such platform, specifically serving online gamers.

1.2 The NFT Gaming Platforms

In the case of NFT gaming platforms, like the MMORPG gaming platforms before them, you make money on subscription fees and on the cut you take on the sale of in-game digital objects.

1.2.1 Pay to Play

On Roblox, as a player, you must "pay to play":

- . you must first buy with your credit card its gaming chips its Robux virtual currency coins and deposit them in an Apple-like digital wallet (you get 450 Robux coins for \$4.99),
- . you can then use your wallet to pay for the subscription fee as well as to buy the in-game digital objects (avatars, skins,...).

1.2.2 Play to Earn

On the other hand, as a certified game developer, you can "play to earn":

- . you make money from the sale of your in-game objects, net of Roblox's cut,
- . you can then convert the Robux proceeds back to dollars at a fixed annual rate (450 Robux coins for \$4.99).

The only real difference between MMORPGs and NFTs is the [currency of payment](#) used. With MMORPGs, you pay in [real money](#), more stable. With NFTs, you pay in [cryptocurrencies](#), which you can buy on cryptocurrency exchanges. Not to be outdone, Visa and Mastercard are offering co-branded NFT cards, with all the promotional bells and whistles to lure these new customers.

1.3 The NFT Marketplaces

In the case of NFT marketplaces like OpenSea, one of the biggest, you can buy a Snoop Dogg Crypto-Collectible Figurine for 0.06 ETH, which is worth, at today's rate of \$2900 per ether, \$174.

Unlike gaming platforms, the price of the currency of payment, ether being the most widely used, freely fluctuates on the exchanges where it is traded. OpenSea is a multi-product platform, carrying art, collectibles, domain names, music, photography, sports, trading cards, utility, and virtual worlds NFTs. It has processed some \$23B worth of transactions. There also are single-product platforms. Decentraland for example sells virtual plots of land on its virtual worlds platform, on which you can build your virtual house or virtual store with the tools provided on the platform. Sotheby's paid \$1.2M for a plot of land on Decentraland, and a plot of land next to that of the ever present Snoop Dogg fetched \$450K.

2. Pricing NFTs

2.1 Pricing of Marketplace NFTs (as opposed to Gaming NFTs)

As described above, those NFTs offered only on NFT marketplaces are priced in [cryptocurrencies](#), in ether predominantly. So far, the price of Ethereum's ether cryptocurrency hovered between \$100 to \$300 in 2019 and 2020. Then suddenly, it skyrocketed in 2021 to hit a peak of \$3 400 in May, then dropped to \$1 685 in July, but climbed back to \$4 500 in November and is now at \$2765. It is this sporadic price volatility, which could turn away the more risk-averse customers (and attract unscrupulous speculators).

2.1 Pricing Risks of Marketplace NFTs

There are 5 levels of price risk one must hedge against:

- . [Commodity price risk](#) of the digital object subject to supply and demand in an unregulated NFT market
- . [Cryptocurrency price risk](#) determined in unregulated cryptocurrency exchanges, i.e. the bitcoin to dollar price
- . [Currency price risk](#), i.e. the dollar to euro exchange rate, as cryptos need to be converted to fiat currencies to get real, exchangeable value
- . [Discriminatory pricing risk](#) the bigger platforms use to favor higher-priced, branded and therefore higher-margin NFTs
- . [Promotional premium and/or discount pricing risk](#) strategy one must adopt

4 The NFT Market

4.1 The 80% of the Market

The 80% of the Market It is mostly teens (54% of Roblox's 31M-strong user base are teens under 13) who collect NFTs, the same way we collected baseball cards in our youth. According to the April 2021 article by Kimberly Parker, 33.6% of NFT sales were under \$100, 20% between \$100 and \$200, making a total of nearly 54% of NFT sales under \$200. Lower-priced collectibles represent the largest sales category.

4.2 The 20% of the Market

The remaining 20% of the market are comprised of the Millennials and the older of the GenZers, earning more than \$100K, who invest at the higher-end of the cryptocurrency and NFT markets. It is these 2 demographic groups, because they will represent 60% of the total population over the next 10 years, whom regulators must protect.

4.3 The Need for Regulation

Unless regulators step in i) to prohibit NFT platforms from taking cryptocurrencies as a means of payment, and ii) to fully regulate cryptocurrency exchanges for what they really are, that is, as capital markets on the same plane as the NASDAQ and NYSE, the risk of an imminent derailment of these new platforms remains high.

5 Financing of NFTs

Most of the financing the NFTs have been receiving all these years have come from VC crypto funds, who thought they could scale up the technology, blockchain, by aggressively buying into NFT platforms and making them also run on blockchain along with the cryptocurrency platforms they already own. Judging by Roblox's \$60B market cap or 20x Sales following its recent IPO, their investments have paid off handsomely.

6 The NFT Business

6.1 Product

It was a handful of upstarts coming from the online gaming and cryptocurrency world, who succeeded in carving out a new market niche with the first 3D digital asset platforms.

These run on the [blockchain operating system](#), are secured by blockchain's NFT token cryptography, and use blockchain's cryptocurrencies as a means of payment.

Begun 15 years ago in the mid 2000s, they tend to serve, so far, a limited number of markets:

- . [online gaming](#) (Roblox), NFT MMORPG-like gaming (Axie Infinity),
- . [virtual real estate](#) (Decentraland), sports card collectibles (NBA Top Shot),
- . [art](#) (Rarible, SuperRare, KnownOrigin),
- . [avatars](#) (CryptoPunks),

. [audiovisual collectibles](#) (Foundation). OpenSea has become the Amazon marketplace for NFTs.

6.2 Growth

The only way for the NFT upstarts to have access to as big a customer base as Meta's is to enter into a partnership agreement with one of the major Internet companies, just as Apple did with Cingular (now AT&T) in 2007 to launch the first iPhone. This may mean "open sourcing" its product to standards other than its blockchain proprietary technology, those standards adopted by billions of Internet users.

7 NFTs' Marketing Strategy

7.1 Value Proposition

2D Digital assets, whether they are texts, images or videos, are essentially digitized reproductions of original printed works in the form of books, photos, or film reels.

By contrast, what is unique about non-fungible token or NFT digital assets, which could be both in 2D and 3D, is that they are [originals](#), to which are assigned a unique computer code, called an [NFT token](#) in computerspeak.

The NFT token is non-fungible in the sense that it is not exchangeable, guaranteeing the authenticity and uniqueness of the NFT digital asset. The NFT token can only be generated by a cryptographic technique known as blockchain, used in bitcoins and other cryptocurrencies

7.2 Branding

It was only recently that the NFT brandname and its blockchain technology, used by the upstarts to promote their platform, really caught on with the general public.

This occurred in March 2021, when an NFT digital collage in JPEG by the artist Beeple was sold for \$69M at an auction at Christie's.

A few months later, in July 2021, as though it had anticipated all along the sudden meteoric rise of NFTs, Facebook officially changed its company name to Meta, massively advertised on the Web an alternative brandname, The Metaverse, and launched its Horizon platforms.

7.3 Monetization

No doubt spurred by these 2 watershed events, sales of NFTs increased by 21 000% from [\\$82 million](#) in 2020 to [\\$17 billion](#) in 2021

8 Appendix: NFT Tokens vs FT Tokens

The Cryptography Both Roblox and the NFTs developed their cryptographic systems from the same cryptography technology invented by IBM in the mid-70s, the data encryption standard (DES). Based on DES, current standards essentially apply computer-generated so-called symmetric and asymmetric encryption keys, known as tokens, to secure i) the digital assets, and ii) the transactions involving their distribution, sale and payment

8.1 Tokens in general

Very much like subway tokens or our credit cards, the encryption keys are stored in a digital card, the token. Whether it is for a non-blockchain and non-NFT platform like Roblox or blockchain NFT platforms, there is a first token that is assigned to the digital asset and a second token to the currency of payment. It's important to note that credit cards also use a similar token system to authorize payment at the time of purchase

8.2 NFT Tokens

On NFT platforms, the first token is given the name of non-fungible token or NFT token, non-fungible meaning that the NFT-coded digital asset cannot be exchanged, i.e. a digital work you've created cannot be exchanged for a work of art done by someone else. The second token is given the name of fungible token or FT token, fungible meaning that the FT-coded digital asset can be exchanged, i.e. a one dollar bill can be exchanged for any other one dollar bill, a Roblox Robux virtual currency for any other Robux virtual currency, and on NFT platforms, which only accept cryptocurrencies for payment, a bitcoin for any other bitcoin