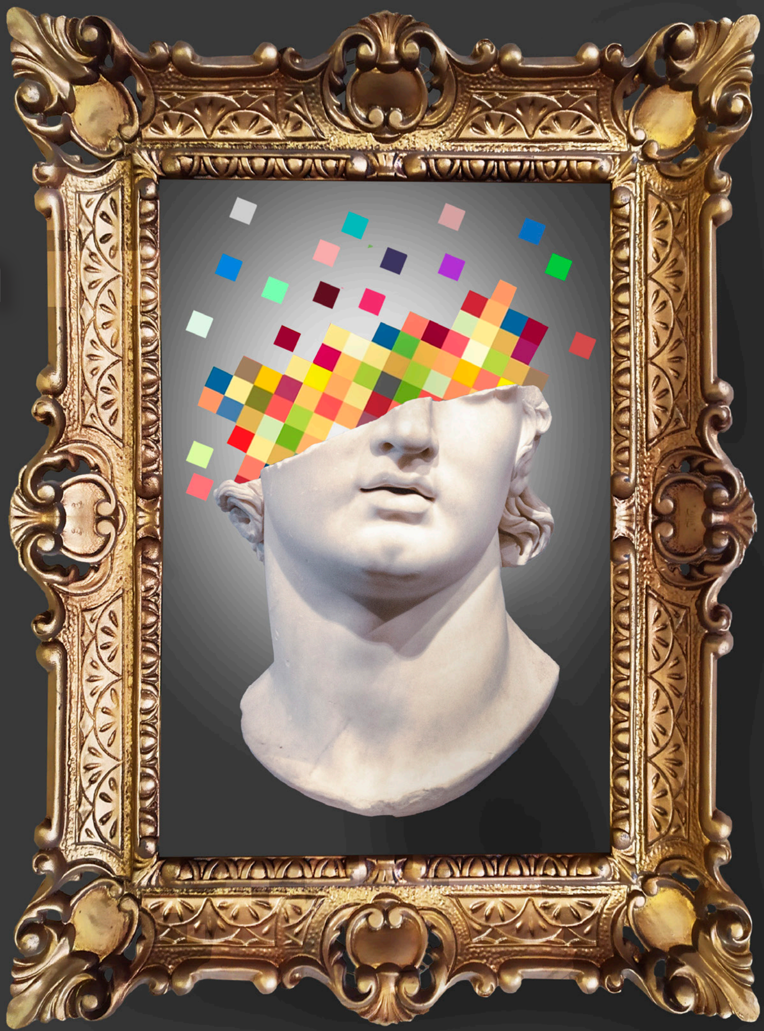
Towards an NFT-ready future

What are NFTs and why might they become the central point of digital contact between brands and their consumers?



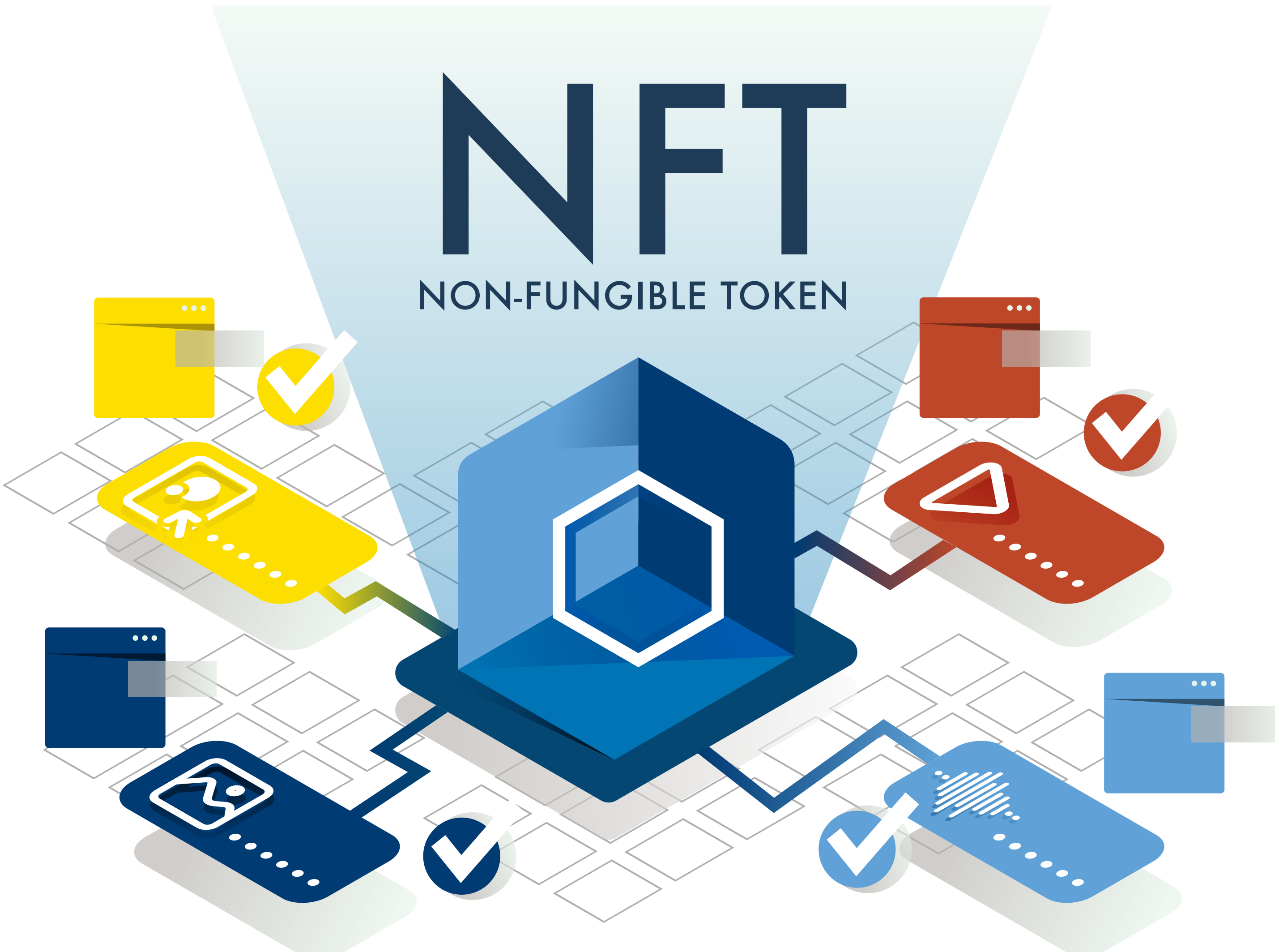
Information and data management have become central to the economy, businesses, governments, and health systems. Indeed, data are now seen as a new type of capital. In this context, NFTs (non fungible tokens) are revolutionizing not only the way we understand and generate value, but also the way in which brands will connect with their users in the future.

NFTs come to life with Distributed Ledger Technology (DLT), known as blockchain, with which we have already interacted in some way, for example buying or selling cryptocurrencies. NFTs are digital assets that represent objects in the real world. Although they are currently limited to works of art, music, elements in a virtual game (such as clothing, land, or an avatar) or video, in the future they are expected to act as a certificate for many other things, and even as digital assets not necessarily linked to a physical counterpart. They are bought and sold online, frequently using cryptocurrencies, in a blockchain - like Ethereum - which is the technology that sustains/hosts them.

They have gained notoriety today because various companies are investing in land in metaverses such as The Sandbox and because they are becoming an increasingly popular way of buying and selling digital works of art. By March 2022, a total of $174 million had been invested in NFT since November 2017. Luxury clothing brands are already earning millions in the metaverse through NFTs. These virtual ownership certificates, executed through blockchain technology, act as proof of authenticity: an owner can show a bag or a dress in a virtual reality video game, such as VRChat, where thousands of users interact daily through avatars and show off their clothing. Along these lines, a future in which we could all show off our virtual reality outfits in the physical world provided people are looking at us through augmented reality headsets does not seem to be far off.

NFTs are generally coded with the same underlying software as many cryptocurrencies. But such currencies, like physical money, are fungible: they can be commercialized or exchanged; they also have the same value - one dollar is always worth one dollar, and one Bitcoin is always worth one Bitcoin. Each NFT, however, has a digital signature that makes it impossible to exchange and it cannot be the same as any other. Hence the term non fungible. If we look back at what we have explained so far, therefore, an NFT is created or “minted” based on digital objects that represent both tangible and non-tangible elements: art, animated GIFs, videos and sports summaries, virtual avatars, plots of land in a video game, designer trainers or clothing, music, etc.

It is astonishing, but this is the regular currency used in virtual games that today move millions of dollars and which represent spaces frequented by celebrities and luxury brands. In fact, there are marketplaces that only sell virtual luxury items. The British start-up The Dematerialised is one of them. The first piece



brought out, in December 2020, was a silver sweater that was sold for 121 euros, and the full run was 1,212 digital representations that sold out in three hours. As stated by the founders of this company on their webpage, the aim is to converge and feed into the emerging digital fashion ecosystem, providing new sources of viable earnings and visceral experiences with a Web3 market for authenticated virtual goods. The aim is to challenge traditional commercial models of production, consumption, and ownership of fashion "with a more transparent, efficient, and fair approach."

New world

In this context, the rebranding of Facebook to Meta Platforms Inc is not anecdotal. Mark Zuckerberg refocused his platforms towards the future creation of a simulated digital world in which users can interact as if they were in a real physical space. When he announced this change via a video posted in October 2020, he used his avatar and that of his colleagues to try on clothes, play cards, pay artists, and even surf.

As he explained: "Avatars will be as common as profile pictures today, but instead of a static image, they're going to be living 3D representations of you, your expressions, your gestures (...) You're going to have a wardrobe of virtual clothes for different occasions designed by different creators and from different apps and experiences."

The challenge will be how to use the NFTs acquired on different platforms or worlds based on blockchain. In other words, whether the avatar of a person or, for example, an item acquired in The Dematerialised can be used in different metaverses, such as Decentraland, Cryptovoxels and Somnium Space, where the currency is totally digital and participants "own" plots of "land" used to store and sell their items.

Sounds crazy? Brands such as Gucci, Balenciaga, and Burberry have already launched their products in metaverses. Gucci bought a virtual plot of land in The Sandbox (video game based on the Ethereum blockchain) to sell NFTs of clothing and accessories for users to customize their avatars. Ferrari made a deal with the video game Fortnite in 2021 so that users could drive the Ferrari 296 GTB and buy accessories from the brand. Ralph Lauren is already selling digital branded clothing in virtual worlds such as Zepeto, and Dolce & Gabbana recently auctioned off millions of dollars in digital haute couture based on NFT.

Consumer revolution

For promoters of this technology, the use of NFT is not a passing phase and goes beyond the world of video games. It might even revolutionize the consumer industry itself. If we continue with the example of the fashion industry, virtual clothing is almost all profit since there are no materials to buy, and labor is minimal. Furthermore, according to Gonçalo Cruz - co-founder and CEO of PlatformE, a technology provider based in Porto, Portugal - virtual luxury could solve the problem of oversupply that is hindering growth in the sector. Each brand is affected by overproduction and excess inventory, which leads them to offer discounts of up to 90% in some cases at the end of each season, driving down brand value, according to Cruz. However, by enabling buyers to start buying virtually, brands could eliminate end of season sales almost completely since they would only produce according to demand.

Furthermore, with NFTs, brands could also benefit from the second-hand and resale market. This is key, especially for record companies. Because they are based on blockchain, NFTs assure the authenticity of a product, which not only discourages imitations but also links the product to its creator forever, including all the times that the NFT is resold, generating revenues each time for its creator. The smart certificate or NFT just needs to include a royalty or participation fee in the revenues of future transactions for the designer, musician, record company, or the creator.

It is worth clarifying at this point that the value of an NFT reflects the value of the asset associated with it, but that asset does not necessarily include the work of art itself. According to the Boston Consulting Group, in an article entitled *Seven Trends at the Frontier of Blockchain Banking*, "For example, an NFT may convey ownership of a large digital collage that the artist has designed for display on large video screens. The artist or another manager may control the copyright (denoting where and for how long it can be shown), while the NFT owner controls the rights for sale. If an NFT becomes too expensive or unwieldy for the vast majority of people to buy or sell, the owner can break it up into parts. Many people can own a fraction of the whole investment and thus participate in the growth of value associated with that work."

So, for the first time in the history of art and music, the original creator of a work could benefit from its resale each time the piece changes hands. In addition to the fact that access to investment in works of art becomes more democratic this way.

Playing, creating, designing, consuming, relating, training and working within the metaverse might seem a long way off still. But, beyond the first incursions of traditional companies, there is a whole generation of young people who have integrated much of this into their everyday lives, since they have grown up playing video games in which they earn, buy, and sell assets, and where the way you appear and what you 'have' is valuable. So, in a few years' time, NFTs could well become the central point of digital contact between brands and their consumers.