

# What the heck is an ICO?



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A simple introduction to Initial Coin Offerings or ICOs.



If you've been watching what's going on with Bitcoin and cryptocurrency, you've probably heard of an "ICO" or "Initial Coin Offering".

So, what is an ICO? Here's a gentle introduction.

It won't make you an expert but hopefully it will give you a basic understanding of ICOs, and maybe even save you some money.

## The "Custom Rides" Amusement Park



Amy and her friends have a great idea. They want to create an amusement park where people can create their own rides and visitors can ride them.

It's called the "Custom Rides" Park (Ok, sure, I could come up with a better name).

Here's how the park will work.

A creator can build her own ride and install it in Amy's park. Any ride in the park can only be operated by special tokens called **Amuse** tokens and she can charge any number of **Amuse** tokens for her custom ride.

Visitors can pay USD and purchase Amuse tokens before they enter the park. Inside the park, visitors use the "amuse" tokens for any of the rides. This is not very different than how some amusement parks operate today.

The creator of a ride gets to keep most of the tokens that people spend on the ride. She can then sell the tokens back or use it for her own rides.

## Mechanics of the Amuse token

Now, here's where things get interesting.

Amy and team plan to mint exactly 1 Million Amuse tokens. They have made sure, with sophisticated software and encryption, that no one can make copies or create more of these Amuse tokens, *ever*.

So, if this park becomes really popular and a lot of people want to visit the park, the demand and therefore the price for Amuse tokens will go up.

## Fundraising for the park

Amy and team have come up with the initial design for the park and have described all their plans in a design document called a white paper.

Obviously, a park like this will need a lot of land and infrastructure. To get started, Amy estimated an initial investment of \$1 Million is needed.

She could take a loan or go to a venture capitalist for money but in both cases she'd have to give up shares in her company, which she doesn't want to do.

So, she decides to sell some of the Amuse tokens at \$2 each. If she sells 500,000 tokens to the public, she can raise \$1 Million.

The proposition to the public is that this one of a kind park will become hugely popular and the demand for Amuse tokens will go up significantly because a lot of people will want to try the fantastic roller coasters and rides. Remember that the supply of the tokens is limited.

So, a token that is \$2 now could be \$6 or \$8 after the park opens.

Amy offers the tokens for sale on her website. People love the idea. Some want to buy the tokens so that they can use the park when it opens. Others expect that the demand and price for tokens will go up and see a bargain.

Either way, people pay money and snap up the tokens. In a matter of days, Amy has raised \$1 Million for her project, and best of all, she has not given up a single share in her company in the process.

What Amy has done is an **Initial Coin Offering or ICO**. She raised \$1 Million by selling tokens that visitors to her future park can use. She didn't give up any part of her company in return.

## Tying it all together

Most ICO projects are similar to this amusement park. A team comes up with an idea that involves building out a platform and an ecosystem of suppliers and consumers of some service. They write a white paper describing their idea. The idea includes a special token that can be used to operate their invention in some manner. They raise money for their project by selling these special tokens. Here are a couple of examples: [Filecoin](#), [HelloBloom](#).

In all most all cases, you can only buy special tokens using cryptocurrency such as ETH and not fiat currency such as USD or Euros. So, if you want to invest in ICOs, you should buy some ETH first.

Remember that purchasing tokens **does not** provide any shares or rights or ownership of the company itself. This is very different than investing in the stock market, where you get a piece of a company by buying a share.

So, if you are thinking of investing in an ICO, make sure you read their white paper, background check the team, learn how the coin will be used, the supply constraints, talk to your friends about the idea and **really make sure** you understand what the “amusement park” will be like.

If you don't do any of that and invest, you'll be on a ride that you may not enjoy :)

