THE ART OF INITIAL COIN OFFERING

by Andrew J. Chapin

Art of the
Initial Coin Offering

Andrew J. Chapin

The materials available in this book and/or e-book are for informational purposes only and not for the purpose of providing legal or investment advice of any kind. You should contact an attorney to obtain advice with respect to any particular issue or subject discussed herein. The opinions expressed herein are the opinions of the individual author.

Further, the author occasionally uses terms and phrases which suggest he is offering direct and actionable advice. In such cases, the author is referring to advisements or advice he has offered to his business partners and/or advisees, and it is not to be received as advisement of any kind. Access to this book and/or e-book does not create an advisory relationship of any kind.

Printed in the United States of America

First Edition

ISBN: 9780692956502

For Lorraine and Andy.

I hope this helps you understand what your son has been doing in California.

Contents

Foreword

I moved to San Francisco in 2015 with one goal: to be part of the action.

Growing up a nerd in 1990s Connecticut, I would thumb the pages of PC World each month and pretend to be ten years older than I was in IRC chat channels. Inside were the enthralling stories and people of the dot com boom, all of which centered around a seemingly-magical city 2,599 miles away: San Francisco, California.

The city remained in my life as my passion for entrepreneurship grew: every company I studied in school seemed to be headquartered there, and I found myself traveling there with regularity as I started my tech career in New England.

When I decided to start my own company in 2014, I quickly realized my geographic restrictions had been lifted; I was no longer chained to a corporate office and I didn’t have to consider the work schedules of my co-workers. I had the opportunity to live anywhere in the world.

At first, out of both wanderlust and financial necessity, I chased investors and startup incubator programs which took me to places like Las Vegas, St. Louis, and Honolulu for varying periods of time. I navigated the tech scene in each of these cities and made true, life-long friends along the way. In each city, I tested the soil and seriously considered planting roots.

Still, I often found myself in San Francisco.

In time, I bought into the (admittedly romanticized) notion that California is where dreamers go. This has been true for a long time: from the gold rush in the mid-1800s and Hollywood in the early 1900s to Silicon Valley around the turn of the millennium.

People armed with big ideas and dreams seem to gravitate to California.

I’m a dreamer. So I went.

My landing in San Francisco was anything but dream-like. One of my first realizations was that everyone seemed to be working on things that were mind-blowingly ambitious and *cool*. I met people building immersive virtual reality worlds, designing hardware that will bring humans to Mars, and developing the software for driverless cars. I had lunch with people who are worth an incomprehensible amount of money, and listened with great interest to harrowing personal stories from people who were around during the dot-com bubble bust in 2001. Everybody seemed so interesting and every idea so big.

The merchandise ad network we were building at Benja no longer felt like such a step forward. People visibly checked out when I started talking about impressions, conversion rates, and sales. Our revenue, great for such a young company, didn't impress people working on complex algorithms to power the sensors that will solve world hunger.

I felt small.

I hung around because I loved the energy. I was excited to go to my desk in a downtown co-working space each day and just be around it all.

Truly happy to be there.

One idea that I couldn't seem to escape in elevators and at happy hours: blockchain. Blockchain was everywhere, so I dug in. I read. I went to meet-up groups. I read more. I bought bitcoin. Blockchain (as a concept) and cryptocurrencies quickly took over an incredible amount of my mental bandwidth.

The concepts came naturally, as cryptocurrency landed at a fascinating cross-section of my personal and professional experiences. Transparency and decentralization had been central beliefs since I learned of them. I spent a summer during college playing with penny stocks and trying out the life of a day-trader, so I have an understanding of how Level II Quotes and exchanges operate. I loved studying economics and monetary policy in college. As I started to travel the world, I witnessed the many challenges individuals have with their local governments, and I quickly grasped the political and social benefits of a cryptocurrency.

Even if only as a hobby, I was in.

In 2016, a new wrinkle appeared: thanks to Ethereum’s blockchain-powered smart scripting functionality, it became easier than ever before to effectively create your own cryptocurrency (or, more accurately and as we’ll more-frequently refer to them in this book, token).

The few who understood the far-reaching potential enabled by Ethereum flocked to companies who had a clear application for blockchain technology. For the first time, companies could *easily* issue their own crypto token to facilitate any number of functions. That was a huge deal for both the company and the industry.

For the industry, these token issuances would lead to a leap forward in exposure. Companies with a strong token use-case would invite industry activity. The more activity with their specific token, the more activity would happen across the Ethereum network and in cryptocurrency more generally.

A rising tide lifts all boats.

Companies came to offer their tokens for purchase as part of what’s called an initial coin offering (ICO). These offerings became a lucrative fundraising mechanism -- companies offered the opportunity to purchase their token often as a way to accept pre-orders on their service or product. This is akin to an under-construction theme park pre-selling tickets to their big roller coaster months in advance, a mechanism that suddenly allowed many software developers to forego traditional angel financing.

About a year after Ethereum was released, more than $250 million had been raised through token sales. At the time this book was published, that number is approaching $3 billion.

While the ICO market heated, our merchandise ad network, Benja, was approaching a fork in the road: we had to decide whether to continue our life as a small but profitable ad network, or if we wanted to raise additional funds and try to scale and go for the gold. I had conversations with our vendor-partners - some of the largest apparel companies in the country- asking what shortcomings they found in online advertising. I heard the same three things over and over: lack of pricing transparency, extended billing settlement time, and rampant ad fraud. I realized these were solutions solvable by the distributed public ledger that is core to blockchain technology.

The dots connected. We could shift the Benja backend to being powered by blockchain technology and issue a token (which we would eventually accept as our primary method of payment). We could address our vendor-partner needs *and*, in executing a token sale, execute a pre-sale that would offer the financing we needed.

We decided to go for the gold. Benja ran an initial coin offering event for its token, benjaCoin, in the summer of 2017 in advance of the launch of our token-based ad marketplace.

In the time since, I have shared my thoughts in several major publications, advised companies on their move to blockchain (or on running an ICO), and, because of my interest in regulation and oversight in this world, I was invited to be a founding member of the ICO Governance Foundation.

Did I mention I was digging into blockchain and cryptocurrency?

I'm in.

In the coming years, I suspect there will be many books analyzing cryptocurrency, sure to offer philosophical or deeply analytical perspectives. They may evaluate the place of cryptocurrency in a historical context, consider the disruptive implications across many sectors, or entertain the geopolitical implications of a decentralized currency. They may discuss the non-currency use cases for blockchain.

This book is none of those things.

This book shares my unique and personal perspective as a startup founder who grew from hobbyist to (software-based) token-issuer to token project advisor during the initial coin offering boom of 2016 and 2017.

Enclosed, you'll find each step of an ERC-20 token generation and sale, from ideation and team formation to how to build the marketing apparatus behind a successful launch from the perspective of a business founder. Along the way, I'll share personal business philosophy, anecdotes, and stories from the trenches as a token entrepreneur and advisor.

I hope you enjoy reading this book half as much as I loved writing it.

I also hope this book becomes outdated. It's not meant to serve in an instructional capacity, but rather as an historical touchpoint for a technology and way of thinking that is changing the world. It is my belief that cryptocurrency is approaching a tipping point, one which will bring forth advances and adoption by the mainstream.

Those advances will make this book obsolete.

I'm excited.

What is an Initial Coin Offering?

Blockchain is a record-keeping technology which provides a continually growing and immutable list of records. Each of these records (called blocks) are linked and secured using cryptography. Blocks typically contain a timestamp, transaction data, and identifiers (hash pointers) to prove its link to a previous block. These hash pointers validate the block's place in the chain, which makes data manipulation or modification inherently difficult.

In the context of bitcoin, other cryptocurrencies, and this book, blockchain is a distributed ledger technology.

This means blockchain technology is used to record transactions between parties, on a common ledger, in a verifiable and permanent way. It is considered distributed because the ledger is not held in one central place -- it is instead held in many places and each transaction must be verified by the consensus of parties involved in a given network.

Since the ledger is not held by a central authority or held in one place, it is considered decentralized. This is a significant theme of this book and in most cryptocurrency and blockchain literature. By contrast, a centralized authority (in the monetary context), like a reserve bank or central bank, manages currency money supply, interest rates, and general capital flow.

Though difficult for some to imagine, central authority represents an incredible and underappreciated risk: such authorities are influential figures whose decisions are far-reaching. Their removal in favor of an open and transparent system is fantastic, especially in the political and monetary context that this book centers on.

Bitcoin represents the first attempt of such an effort at scale, and it appears to have proved the viability of a blockchain-powered cryptocurrency: there are thousands of nodes confirming transactions, there is an average daily transaction volume in excess of $2 billion each day, and there is increased media coverage of a concept once considered nothing more than a fringe idea touted by doomsday preppers.

Bitcoin has many practical use cases, especially when it comes to international transactions, a fact I learned in early 2017 when I launched a physical product with my business partner Tommy Goode. Tiny Cables sells short (8”) cables to charge and sync your devices. When we decided to have our cables made overseas, I was concerned about quality assurance, durability, shipping time, packaging, distribution, and other such concerns. Paying the factory was one of the last things on my mind.

Rookie mistake.

I naively assumed that, given the many methods we have to send money to friends and acquaintances in 2017, we’d have a plethora of options to pay for the $8,000 initial order. I was dead wrong.

Trusted channels, like PayPal and wire transfers, carried excessive fees. Others would take several days, were too risky, or were simply not available to our overseas partners.

Bitcoin would have provided a low-fee way to transfer those funds within minutes, with *no* bank or regulatory involvement. This lack of bank and regulatory involvement attracted other kinds of business, too: bitcoin was the currency of choice for the now-defunct online black marketplace known as the Silk Road. Bitcoin is *the* way to transact business without interference.

While business transactions such as these increasingly find a home with bitcoin and it seems positioned to become the single world currency, there are significant limitations to the most popular cryptocurrency.

For one, there are violent swings in the valuation of bitcoin. While I will not spend much time discussing valuations in this book, it is worth noting a $500 bitcoin purchase in July 2013 would have been worth more than $30,000 in October 2017. Likewise, a $5,000 bitcoin purchase in August 2017 would have lost ~20% of its value within a few weeks before rebounding.

I share this only to say that while I can live my day-to-day life knowing what a $5 USD note can be exchanged for at the general store down the street, I cannot say the same for bitcoin. Even if the value is generally increasing, this represents an unknown quantity that makes its use as an everyday currency difficult.

More importantly, bitcoin is not widely accepted. Even in a nerd mecca like San Francisco, only a small percentage of businesses accept the cryptocurrency. There are some individuals in the United States who won't carry an American Express or Discover card in fear of their card not being accepted *everywhere*, even if the difference in acceptance of Visa vs. American Express is as slim as 2 or 3%. Bitcoin is not accepted at anything close to a meaningful number of vendors.

Vendors can be spooked by the valuation question, but they're also concerned about the amount of time it takes to verify a bitcoin transaction. While Visa's payment system can process up to 56,000 transactions per second, an average bitcoin transaction takes 43 minutes to verify. That's simply not practical.

It is these limitations, among others, that brought blockchain developers to explore the creation of alternative cryptocurrencies (with their own blockchain and ledger, independent of bitcoin). Litecoin and Dogecoin both handle a higher transaction volume than bitcoin, which leads to faster confirmation times, but each have their own downsides.

Ethereum, another alternative cryptocurrency and the one which serves as the base for most of the tokens we discuss in this book, was announced by Vitalik Buterin in late 2013 with the goal of building decentralized applications. Buterin, a programmer involved with bitcoin, recognized great opportunity in the ability to include a scripting language for application development. Unable to make such a change with bitcoin, he released Ethereum, which features smart contract functionality.

A smart contract can facilitate, verify, and enforce a transaction based on conditions. Given the public and transparent nature of Ethereum contracts, one can develop provably fair functions and automate transactions based on quantitative performance.

One can imagine a sales environment where a smart contract controls and automates the dispersion of commissions based on revenue generated, or how real estate might benefit from the digitization of a sale or retail process powered by smart contracts. There is no greater way to instill trust in transactions. Smart contracts may seem simple (especially in the provided examples), but they’re a real game-changer.

As part of the scripting functionality of Ethereum, Buterin and his partners included the ability to create a unique crypto token for use inside of decentralized applications (Dapps).

Tokens inside of an application are not new -- many popular mobile games include some form of reward or score-keeping system based on a soft-coded token, for example. What *is* new is the ability for these token to perform a specific function and exchange these tokens for something else, like Ether, seamlessly.

If a mobile puzzle game like Huedoku rewarded its best performing players with a crypto token, players might be able to convert their hard-earned token for something with real-world value or send it to their friends. This adds an interesting layer that was previously difficult.

More importantly, utility or usage tokens can simplify transaction execution inside of a Dapp. When you go to an amusement park, you typically exchange fiat currency for a wristband or set of tickets granting access to rides, rather than paying a variable amount in fiat currency for each ride.

Imagine how bad those ride lines would be.

Unique utility or usage tokens make it relatively easy for the token issuer to manage internal economics, circumventing the fees and process of a fiat-based transaction flow while avoiding the day-to-day fluctuations of major cryptocurrencies.

A token issuer has the ability to manage token economics, so one token may represent a specific function inside of a Dapp rather than presenting a constantly-changing exchange rate for Ether (ETH), bitcoin, or another cryptocurrency. Given the variance in price common in cryptocurrency, you can imagine how confusing it might be if you earn 0.1 ETH for a great performance in a mobile game on Monday, 0.18 ETH for the same performance on Tuesday, and 0.05 ETH for an even better performance on Wednesday. The unique usage token allows the token issuer to create a more sustainable and predictable reward environment.

Mobile gaming is just one of many great use cases for a token issuance. Other favorites of mine focus on decentralizing cloud storage, offering a secure way to interact with Internet of Things devices, or building a trusted identity verification system.

At Benja, we were fortunate to have clear market demands that led us to a token generation and sale. Benja offers top-tier brands the ability to sell merchandise through unique user-experiences that span a number of channels, including a personalized shopping mobile application, an interactive online display ad, and e-mail, among others. Launched in 2014, Benja has found strong and steady growth, exceeding one million in revenue and achieving monthly profitability in early 2017.

As we looked toward the next stage of growth, we reached out to our partners to ask what improvements we could make on the product side. We kept hearing three things:

- Both vendors and publishers wish there was greater price transparency. When a vendor goes to a large ad network to place an ad, they're quoted a price but offered no insight into how the price was generated or what the network's cost of that placement is. Likewise, a publisher who is paid $1,000 for their sidebar real estate has no idea if the large ad network is charging advertisers $1,050 for that inventory or $1,000,000. Ad networks leverage their position in the middle to create an information asymmetry, and that's not fair to anyone but that ad networks.

- Our publishers hate that it takes so long to get paid. Much of the online display advertising industry works on an invoice-based system, and we facilitate relationships between vendors and publishers who have been doing business together for years. Still, it can take 120-150 days to close a billing cycle. In 2017, that's absurd.
- Ad fraud is a huge problem. False (or bot) traffic resulted in more than $16 billion in wasted ad dollars in the United States alone, a costly issue for advertisers which has a negative impact on the price of advertising across the board.

We instantly recognized that two of these issues could be solved by turning our advertising backend into a Dapp with its own token as a method of exchange. The third, ad fraud, is also something we believe could be addressed with a blockchain solution in time.

We set out to create an ad marketplace which shared each transaction (with verifiable proof thanks to blockchain), providing true price transparency. By providing daily settlement of ads bought with benjaCoin as a currency, we would shrink the billing lifecycle dramatically, and create a liquid market where true market economics could take over.

Further, we knew that our status as a company with real partners, history, and revenue would award us with a strong position in the market -- we wouldn't be a napkin-stage idea like other token issuances.

It felt like the right place, the right product, and the right time. We set up our Initial Coin Offering, a multi-week event during which a token is available for sale for the first time. This sale event, which occurred months before buyers would be able to exchange benjaCoin for advertising on our marketplace, funded the development of blockchain development and it allowed us to continue to grow our business.

Some compare an Initial Coin Offering to an Initial Public Offering (IPO), a flawed but logical comparison: each represents the first time that a given share or token is made available to the public. A core difference is a non-security token in good regulatory standing will not represent an ownership stake in a company. It only has its stated utility.

Still, an ICO and an IPO hold some similarities: each is an intense and complicated process which demands all branches of the organization to prove its value, and a company is welcoming external eyes to be a part of its development in some way, shape, or form.

An IPO works with a bank to underwrite their offering, tasking the bank with the responsibility of selling and marketing shares to investors. In an ICO, it is the company itself who is responsible for making their pitch to the token buyer community.

The steps it took to reach our public sale period is the basis of this book, but Benja's path is not the only way to navigate a token issuance and sale.

Companies can issue a token for any purpose at *any* stage of their product lifecycle. Along with existing businesses, there have been dozens who raised millions on nothing but an idea, a strong team, and a convincing set of pitch documents.

This freedom may sound refreshing but there are concerning elements especially with those who launch projects with nefarious goals or those who make big promises about a product they want to build with no plan, experience, or developers to build it. Some have outright lied about a product they have in development and raise millions, only to disappear. And it's not always veiled: the Useless Ethereum Token (UET) raised nearly $100,000 with a simple homepage that stated its buyers will be able to use it for "nothing. Absolutely nothing."

As a member of the startup community who has struggled with fundraising and seen many great companies fail after failing to close a deal of comparable size, it hurt to write that last paragraph. Bad actors are an unfortunate reality of a low-barrier system like this, and they provide the perfect case for why regulatory bodies like the U.S. Securities and Exchange Commission exist.

A decentralized economy means there's no way to put up a wall or ban those who we know are trouble. Instead, we have a strictly social control point: we can talk about best practice and scream about it until token buyers start paying close attention. Millions have been lost in ICO schemes, which has lead to my personal mission of preventing the bad actors before they kill this world-changing technology.

This book is about what I believe to be best practice.

Ideation

While there have been many headline-grabbing examples of companies raising surprising amounts of money, including those examples mentioned previously in this book, it’s important to bust the first major misconception about a token issuance: fundraising through a token issuance is not easy.

The path to a “yes” decision from an investor is similar to the path to a “yes” from a token buyer.

It has been said that for every 1,000 angel investors a startup founder might pitch, they will earn 10 meetings and convince 1 to invest. That’s one-tenth of one percent, and many angel investors may only cut a check large enough for a few months of runway, as they’re well aware of the failure rate of young startups. While it is believed the success rate for earning a “yes” decision in a token issuance is higher (by as much as 10x, depending on who you believe), the average size of investment is much lower. As an observer and participant in several token sale events, I’ve seen buyers who place many small, sub-$10 orders for tokens that catch their eye without doing much due diligence.

A token issuance may appear to be a shorter path to success because there is greater transparency and frequency. That is to say that a company attracting five new investors per hour on the first day of its sale *appears* more exciting than a startup who sends one thousand pitch decks on the first day in hopes of scheduling a meeting a few weeks down the road.

Adding to the complexity, there is an important distinction to make: token buyers aren’t investing in a company. A subtle but critical difference in regards to compliance with major regulatory bodies is there can be no expectation of profit, dividends, or profit-sharing. Instead, a token sale must be positioned as a pre-sale of inventory to finance development, akin to Tesla accepting pre-orders for its new cars months (or years) in advance of delivery.

In that way, the pitch to a token buyer is materially different than an equity pitch: you’re not trying to convince the recipient that your organization is a worthwhile investment, you’re aiming to convince the recipient they’ll gain worthwhile value out of your product or service. In many ways, that’s a more difficult pitch to make.

There are operational challenges for the company incurred as a result of a token sale since a pre-sale of inventory creates a liability. Once the product is live, the company is on the hook to deliver. A pre-sale of inventory is an easy sell when you’re an established business who has shipped product before (like Tesla), but gets increasingly difficult the less established the organization is.

This consideration is the first component to ideation: your business needs to justify a pre-order of inventory, both in terms of internal business economics and from the perspective of a potential user.

The New Business

There have been many token issuances made by brand new companies, starting from square one. Here, the first step is simple: come to the table with the next Nintendo, Apple, or Uber. Prepare to change the world.

Okay, maybe not.

The first step is just as challenging, though: come up with a product or service to address a real problem, one that is technologically feasible with a strong business model.

Not easy.

Whether the new business offers a never-before-seen product or it’s iterating on an existing product, I encourage entrepreneurs to fill out a business model canvas to think through key resources, value propositions, customer relationships, channels, customer segments, cost structures, and revenue streams. Just as each of these items would be presented in a traditional business plan, they will be presented in your ICO documentation.

This exercise can prove to be a major hurdle: the aspiring entrepreneur is expected to make product decisions with no product or customers and financial plans with no revenue, and to do both with confidence.

In a prospective business where there is a fundraising need, the entrepreneur is left with nothing but their best guess and whatever research exists publicly.

This research can come from any number of sources, but the most actionable is found when building a business that iterates on an existing product or service. Learning from the mistakes of others is a good rule in both business and in life.

For evidence, look no further than the iPod: a shift in the (hardware and software) user experience and a few marketing dollars took the MP3 player from a failing category to a game-changer. In 2012, Color Labs raised $41 million for a social live video streaming application. It failed quickly. Three years later, Periscope launched the same product, reached ten million accounts within four months, and was quickly acquired by Twitter.

This happens all the time.

Entrepreneurs armed with a set of data to work with have a clearer path to the identification of their customer, which shortens the learning curve dramatically and offers a more direct path to the almighty product-market fit.

The term “product-market fit” was pioneered by Andy Rachleff, the co-founder of Benchmark Capital, who asserted that a large market is the first and most important component to any business. Given a market large enough, he said, a talented team will always find a way to address a segment of it.

Rachleff brilliantly summarizes the product-market fit in sharing that the identification of “a compelling value hypothesis is what I call finding product-market fit. A value hypothesis identifies the features you need to build, the audience that’s likely to care, and the business model required to entice a customer to buy your product.” In other words, nothing is as irreplaceable as a great market.

In fact, the absence of product-market fit is the most likely culprit for why there’s an opportunity to iterate on an existing product at all. Fred Wilson, a New York-based venture capitalist, has shared product-market fit means “getting to the point where the market accepts your product and wants more of it.” At some point, the existing solution didn’t quite go the distance.

The importance of product-market fit isn’t difficult to grasp, nor is the fact that data will be of great help in your quest to find it.

The real question is isolating **why** the first MP3 players failed only to see the iPod soar, and what factors led to Periscope’s success where Color failed so magnificently.

When Color pivoted to live video streaming in 2012, the market signals were strong. The majority of worldwide mobile phone sales were about to tip toward smartphones (which occurred in 2013), and Apple was about to release its first 4G LTE-compatible phone, meaning there would be more customers with quality cameras than ever before with phones operating on networks faster than ever before.

The market appeared to be large and ready for a killer video app.

While it is true the general market was trending (and ultimately went) in the expected direction, Color's failure signals they never had a strong grasp on their user. Near the end, it was clear its prime user demographic was college students. Color did not anticipate that most college students were not on an annual smartphone upgrade cycle, nor did the company consider the slow roll-out of the 4G LTE network and the fact that college towns were not at the top of the build-out list for large cell carriers.

In other words, the core audience for Color wasn't going to have the great camera or the high-speed cell service. Given time for the necessary technology to become ubiquitous, Periscope was able to offer the same product to the same group of users, and they won.

Once prepared, bring your plan to those who are likely to oppose it - teammates, competition, cynical friends, the uncle that hates you, whomever - and have them challenge your assumptions. If they can't find the utility, pay attention. The best tokens are those whose utility is clear even to those who won't buy, hold, or use it. When your venture and token issuance are made public, people will try to poke holes every day. You'll want to have your story tight and answers straight. You'll be happy you went through this exercise.

Armed with a plan that has a clear path to product-market fit, a filled-in business model canvas, and a model that stood up to your mean uncle, the foundation is set for a successful ICO.

The Existing Business

The token project ideation process is not only for the newly formed business. Even if a business has achieved product-market fit, there are questions to answer and items to address.

There is none larger than the question of how a business has operated without blockchain technology to this point, and why it needs to make the change now. Most would be surprised how such a simple question can stop a business owner cold.

Whether new or old, large or small, all businesses considering this shift need a clear blockchain use-case that extends well beyond the idea that it enables pursuit of a token-based fundraise. It must serve the product and customers in a way that is a real improvement over a database-based solution.

Further, the existing business needs to carefully consider if its team is equipped to handle the technological shift necessary and if that might be disruptive to existing plans or teams.

It's easy to be blinded by shiny new technology and the promise of a healthy fundraise, but I encourage existing businesses to carefully consider whether they need to make such a fundamental shift. If it isn't broken, why fix it?

The existing business should also take stock at this point: the company has likely invested in brand recognition and they've built a community of customers and supporters. Does this token issuance jive with existing branding? Does a token risk manipulating external partners?

At the same time, consider how that community might be activated as part of an ICO marketing effort. Cultivating a list of engaged and interested parties is often the most time-intensive component to the ICO planning process, and any shortcut will be a great help.

Team Formation

William A. Sahlman of Harvard Business School famously insists most business plans waste too much ink on numbers while not paying attention to what matters most: the team.

“When I receive a business plan, I always read the resume section first,” he wrote. “Not because the people part of the new venture is the most important, but because without the right team, none of the other parts really matter.”

Once considered bold, his approach has become common in angel investors and venture capitalists alike, and this is of critical importance for both existing and new businesses pursuing a token issuance. Businesses should consider this section whether building a new team from scratch, forming an organizational leadership team to pursue a token issuance, or even to guide a self- and group-evaluation process for an existing team.

The team formation stage is the perfect place to ask big questions, like who you want to *be* as a company. Zappos, the popular shoe e-retailer, defined a set of core values when they were in their early stages. The title alone sets the tone: the Zappos Family Core Values. In it, they offer ten key bullet points:

1. Deliver WOW through service
2. Embrace and drive change
3. Create fun and a little weirdness
4. Be adventurous, creative, and open-minded
5. Pursue growth and learning
6. Build open and honest relationships with communication
7. Build a positive team and family spirit
8. Do more with less
9. Be passionate and determined
10. Be humble

Zappos formed their values by asking teammates to share their own personal values, which they then combined and tested against existing employees.

This is a conversation partners should have before going too far. Each team member will be investing some of their limited time on Earth in this project, and it’s important to understand - to the extent which you can - what their individual goals, motivations, and beliefs are.

When interviewing potential team members at Benja, I often ask applicants what they think the job-after-this-job is. This fosters a sense of understanding between the organization and its employees: if an employee shares they may be interested in starting their own company, it signals they may be a good person to involve in founder responsibilities.

This understanding enables the organization to offer compelling and interesting work which benefits the development of the employee. That’s a win all around, and of increased importance when working through the intense challenges that come with navigating new technology.

A clear division of labor is paramount. For most projects, the ideal team is made up of a technical founder, a business founder, and a few advisors. This simple and limited set of team members should offer minimal bureaucratic overhead and obvious responsibilities. I occasionally find a startup or project which launches with more than one business founder but have never seen an instance where such an arrangement is necessary.

Teams should be kept as lean as possible, as startups often pivot and needs will change in time. If a startup keeps overhead low, it increases its chances for success many times over.

The Technical Founder

It has always been difficult to find a rockstar technical founder. This is certainly the case in cities outside of the tech mainstream, like St. Louis and Los Angeles, but is even true in Silicon Valley. Competition for full-stack developers is intense, and as the cryptocurrency market finds new highs, there's an added layer of complexity: technical workers are making more money than ever before, shifting the market and making it increasingly difficult to incentivize someone with a developer skill-set.

I've heard stories of fresh Stanford grads walking into the Googleplex drunk and walking out with a $150,000 starting salary. I've met others who decided to hole up in a San Francisco co-working space, launch their own token, and raise $10 million in less than sixty days. The question is this: in this environment, how do you incentivize a technical founder?

The answer lies in individual motive. When I've been tasked with technical recruiting, I often seek to learn what the person works on in their free time. If the candidate contributes to open source projects, take the time to look at their user profile(s). Side projects will tell you a lot about a person.

Simple as it may be, the closer you can align a technical founder's personal interests with your projects mission, the more likely you are to have an engaged and happy technical founder. It's painful to watch a company think they can motivate with money in the wrong situation. Don't do that.

At the time this book is published, I advise companies to pay less attention to blockchain specialization and more attention to interest and the ability to learn. There simply aren't enough developers that have the experience necessary to lead blockchain projects, a fact that I am hopeful will change soon.

An alternate path, one which I know many are taking, is to hire a team of junior developers and contract a blockchain specialist to train the staff for a few weeks or months. While this may slow the initial development phase, it will be easier than competing for a full-time specialist, and in that period of time you should be able to identify an individual to lead the technical effort.

As always, trust is key, especially with matters involving large sums of money and if the technical founder is working alone. Exercise caution in this area.

The Business Founder

On the other side of the spectrum entirely, business founders are a dime a dozen. Take it from me, a business founder.

Don’t get me wrong: business founders play a critical role in the organization, but there are *so* many who can do the work. A business founder can be found in any city in America, business skills are easily transferable between industries and segments, and supply generally outpaces demand. Technical founders can afford to be picky.

Qualification for the role is less about which skills the business founder has, and more about the business founder’s interest and relation to the problem. In most cases, a business founder is the one who takes the lead in a pitch; They are most likely the individual who will lead meetings or calls with prospective investors or partners. As any businessperson will tell you, the person who delivers the best pitch is the one who tells a clear story that demonstrates a real feel for the problem. You’re looking for someone who can generate a feeling of empathy from their audience.

Further, you’re looking for someone who can *sell*, though that doesn’t mean you’re looking for the best salesperson.

Even if the position will require little or no sales activity, the business founder is going to be tasked with selling the idea to investors, the product to partners, and the marketing plan to the team. In most traditional American startups, the business founder serves as the face of the company - they’re going to have to *sell it.*

When hiring for business roles, I have found one simple exercise is the most effective way to gauge the candidate’s ability to sell: we ask them to teach the recruiting team something.

In my experience, responses to this question are fantastic. Thanks to our recent hiring efforts, I’ve learned how to ask for a beer in three different languages, how to cast a fly fishing rod, and how to make the perfect paper airplane.

By surprising the candidate with the question, we gain an insight into how they think on their feet. We learn how they adapt and if they're able to organize information in a concise manner. Often, we learn a little bit about the candidate's personality and hobbies. Above all, we gain an insight into how the person *sells* something they know and care about.

It's a good one.

The business founder should be able to handle most of the business-side tasks. Between a decent business founder and software for items like payroll, bookkeeping, and the like, there is typically no need for a second business founder.

And while we all have that friend who majored in finance and would be a good hang around the office, you don't need a Chief Financial Officer before you have annual revenue in excess of $10 million.

Finally, depending on the nature of the project, you may find that an effective business founder comes from a sales engineer background. Many sales engineers are tasked with preparing and delivering technical presentations which address technical needs, experience which may be helpful for products based on a non-mainstream concept like blockchain.

When the team at Benja pitched a list of apparel retailers on our token-based advertising marketplace, I found it necessary to include a primer on blockchain and cryptocurrency. In some instances, these concepts took more than half of the presentation to work through. A sales engineering background would have been useful.

While this may seem like a daunting task, it's an important one for both yourself and the crypto community more generally: the more people are comfortable with the term "blockchain," the better.

Advisors

There are many common misconceptions about the role that an advisor plays in a young organization, including whether they're necessary at all.

No matter who you are or what the organization is, a team of advisors is necessary. This is the case whether the founding team dropped out of the University of Florida with no work experience, or if they're startup veterans with several successful exits.

The reasons are many: you may be starting a business with limited industry experience and you may be able to draw from experienced operators. You may have a specific need - financial expertise, perhaps - but not yet be in the position to hire for such a role. You may need an advisor who simply settles disputes and provides objectivity. All viable reasons to bring in an outside voice, and this only scratches the surface.

In my opinion, there is no greater reason than this: you're going to get tired, and you'll need a trusted party to help keep you on track. Entrepreneurial pursuits can be outright exhausting and, in many cases, lead to depression. A study by Dr. Michael Freeman, a clinical professor at the University of California, San Francisco, shares that thirty-percent of all entrepreneurs experience clear depression.

No entrepreneur is immune to the pressure of expectation, which leads many to respond to questions about how things are going with blind optimism, a reaction driven by the false standard that early-stage companies need to be "crushing it."

Toeing the line between honest optimism and false bravado can put a founder on an emotional crash course for disaster, and the right advisor can be a business therapist of sorts, a steady hand who can help navigate the trials and tribulations of this experience.

Much like a personal therapist, the advisor who looks best on paper isn't always the right one. It can be tempting to bring in an advisor with a pedigree that will wow potential investors, but it’s far more important to find one who you can have an honest conversation with, especially if that person specifically covers one of your individual or team weak spots.

For new participants in the crypto space, there are many areas where an advisor can add value. There is the technology end of the business, of course, but also a number of business-side tasks and considerations during a token issuance and sale. Even in a basic token issuance, there may be a need for a salesperson, a marketing guru, and an economist. And that’s just figuring out what your token supply might be.

Even in a world where you’re able to find strong advisors who are interested in your project, you’re left to identify motivations and pinpoint a method of incentive or compensation fair to all parties.

The answer lies in an interview, no different than an interview for any other position in your organization. Be selective.

This may seem counterintuitive, especially in scenarios where young founders worked hard just to have a conversation with experienced advisors, but it’s important to keep an eye on the big picture.

After an advisor comes aboard, a simple agreement defining the scope of expectations is an appropriate and fair step for both parties. Set the ground rules.

In the end, time is the most valuable resource for both founder and advisor. Neither should waste it. Throughout the evaluation process and during the advisement period, be specific about *why* you want to talk and be clear about the amount of time you’re asking for. An e-mail should offer some frame of reference, with an ask like “We’re concerned about our retention metric and we need to hire a user-experience designer - do you have twenty minutes to chat?”

And if it isn’t working, cut bait. An advisor is no different than any other employee in your organization whether they’re paid or not.

Partners

In the months following the benjaCoin ICO, I invested time considering what I might have done differently given the chance to do it again. One area where we clearly should have invested more time is partnerships, as I believe it would have mitigated a great deal of risk for our token buyers and offered greater long-term security.

There is little doubt that our lack of effort in this area lead to fewer sales of benjaCoin.

My concern centers around the topic of integration. In early 1900s America, a clear business trend emerged: large, vertically-integrated organizations finding benefit in their size, able to leverage closed networks and exclusivity to crush competition. These vertical integrations include both backward and forward vertical integrations, speaking to the entirety of the production process.

Backward vertical integration speaks to the benefit realized by organizations which control subsidiaries specializing in important production components. One such example is an automobile company which owns (or is invested in) a tire company and a glass company. These investments are made to foster a stable and predictable supply and quality of these essential components and, for decades, this worked well. Ford is a great example of a company which found benefit in such an approach.

While backward vertical integration speaks to the components of a process, forward vertical integration speaks to what happens after production especially as it relates to distribution.

Those who have worked in retail know the typical product flow: from manufacturer to wholesaler, from wholesaler to retailer, and from retailer to the customer. There is mark-up each step of the way, often between 50-100% which means your $40 bottle of wine was probably first sold by the manufacturer to a wholesaler for between $5 and $10. Ouch.

A strong vertical integration results in the manufacturer owning the subsequent steps, like how Tesla owns all of their auto showrooms and Apple owns their Apple Stores rather than running a franchise program. While efforts such as these require planning and hiring for things (typically) outside of the company core competency, the benefits are many: increased process control, supply chain coordination, greater pricing control, and generally, higher margins.

The risks of vertical integrations are clear, especially for those who operate and work in the subsidiaries. Such risks were on full display during America's Great Recession between 2007 and 2009: when a brake pad manufacturer hitches their entire existence to a single auto manufacturer and that auto manufacturer hits hard times, they're in trouble as they can't simply pivot to selling to other auto manufacturers.

Difficult as it may be to imagine, Apple may find decreased demand in the future which would certainly call into question a strategy that demands they pay the exorbitant price for real estate in their prime retail locations. By contrast, a more general-purpose electronics store would simply be able to pull Apple product in favor of a better-selling product line.

It is because of these risks that many have begun moving away from strong vertical integrations in favor of key partnerships: an arrangement which gives each of the different components the security of having a defined partner to work with, (often) with the flexibility of being able to partake in other company ecosystems.

This section has been manufacturing and retail-heavy but the lessons are important for many token issuances in 2017: companies (including Benja) issuing their own token, intrinsically linking the value of this digital asset with the successes and failures of the issuing company, much like a complete vertical integration.

Simply: if Benja were to go out of business tomorrow, what value does its token have?

It is in recognition of this risk that I encourage those who are working on a token issuance to do so with an eye on hosting a platform-style system where many partners can participate and the token-holders can find value with your token several ways.

It's what's best for the end-user, the greater ecosystem, and the companies.

It may be difficult to coordinate, especially if these partners are those who you might describe as competitors in your day-to-day. If there's a true use-case for a token-based solution that solves a real problem, all parties should work together for sector-wide benefit.

Business Formation

Registration, Regulation, and Taxes

Questions around business registration are some of the most frequently asked questions of perspective token entrepreneurs. This question most often comes from those based in the United States, seemingly out of the fear that the U.S. Securities and Exchange Commission (SEC) might label the token an investment security. Fear of regulators and what action they may take is not exclusive to the United States, however, and it's one of the great questions in the cryptocurrency space in 2017.

Benja and its parent company are registered in the United States and have no international dealings of any kind, so our position was clear: if we could find a way to issue a token without violating United States law, we were in. If we couldn't, we would have no choice but to cancel our plans.

Fortunately, the regulatory concern centered around whether our token would be, or appear to be similar to, a security.

As per the Securities Act of 1933, the SEC defines a security as "any note, stock, treasury stock, security future, security-based swap, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a ''security'', or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing."

With the best interest of the investor in mind, the SEC works to ensure those who issue securities are held to high standards in regards to disclosure of important financial information. This is primarily accomplished through requiring the registration of securities and filings. The commission works to protect both parties of an investment agreement in various ways.

The SEC is good people. My aversion to the security label was certainly not a reflection of my opinion of the work they do, nor was it a case where I was afraid to disclose financial information. We shared profit and loss statements in our white paper.

My concern centered around not being equipped to handle rigorous filing requirements, and figuring out how to meet the SEC's requirements in regards to making sure buyers are accredited investors. (There were also great questions about how this accreditation process would work with our vendor-partners, who are the primary users of our token.)

It seemed like a great legal undertaking (and expense), unnecessary for a token with such a clear use as a method of exchange of advertising inventory.

In late July 2017, after our research determined we would not be considered a security and just days before Benja launched the benjaCoin ICO, the SEC dropped a bombshell.

The commission announced they had determined "that tokens offered and sold by a 'virtual' organization known as 'The DAO' were securities and therefore subject to federal securities laws."

That spooked us.

The announcement lead me to e-mail SEC Chairman Jay Clayton to ask for guidance. After spending three years building a startup, I certainly didn't want to risk it all because we didn't ask a simple question.

We carefully planned the benjaCoin ICO in such a way it would not be considered a security in the eyes of, well, anybody -- not our buyers, not us, and certainly not the United States government. The SEC announcement lead us to believe there may have been a shift in the way the government viewed ICO events and tokens more generally.

In my e-mail to Chairman Clayton, I shared I was planning an ICO event, that I was interested in speaking with someone about it, and I said “Although we are not guaranteeing any ownership rights, dividends, etc. and we explicitly state our tokens are for simple participation in our network (as an advertiser or publisher), we want to make sure we are complying.” I closed by asking who to speak with.

Days later, the SEC called.

Although the call came from an unknown number, I answered. I never answer those. I’m glad I did.

The call made a few things clear: first, each ICO or token issuance is different, and the SEC recognizes not all ICO events or token issuances are securities. A few weeks later, over America’s Labor Day weekend, the Chinese government issued a temporary ban on *all* token issuance activity. Broad bans are indeed the greatest threat to the token ecosystem but fortunately, it does not seem that such bans are likely in the long term. In retrospect, the most important piece of guidance we could have received was that the SEC was not painting with broad strokes.

The SEC representative further shared the Howey Test as the best guidance they can provide in regards to whether a sale could be considered a security.

The Howey Test, first shared as part of a United States Supreme Court decision in the case of *United States v. W.J. Howey Company*, asks a few questions, the most important of which is this: is there an expectation of profit from the investment?

In the case of a true utility token, buyers are exchanging value for the token with clear intent to use it for its stated purpose, not to speculate on its future price.

We had that with benjaCoin and checked the other boxes as well, but we still wanted to make sure we were as clear as possible so we did what I encourage all American companies to do: write a letter to the SEC explaining your project and how your organization is thinking about it.

The letter we submitted from Benja was four pages long and covered a range of topics, including the economics and marketing strategy behind the token. We submitted the letter to the SEC Division of Corporate Finance. The goal was not to obtain a no-action, interpretive or exemptive letter, but rather to establish a record with the SEC.

Should the commission take a deeper look at our project, we thought, it would establish intent, reflect well that we had the foresight to do this, and it will ultimately save the SEC time.

Anytime you can make life easy for a regulator, that’s a good thing.

Geographic concerns aren’t limited to the question of security registration, however. All ICO events must also pay careful mind to taxes.

Just as with regular business operation (and other methods of crowdfunding, for that matter), your organization will be taxed at the end of the year on total income less expenses. Some say this is a good reason to run your token sale early in the year -- the earlier in the calendar year you raise, the longer you’ll have to spend it before paying taxes.

I don’t know that this is enough of a reason to postpone a project, and think the larger tax-related topic to be the price of the underlying Ether, as the taxable income is calculated on the average price of Ether during your sale.

If Ether has just experienced a rapid rise, it may be smart to postpone your token sale to avoid a scenario where you raise only to see the value swing dramatically lower. In 2017, Ether has ranged between $9.90 and nearly $400. Don’t underestimate its volatility.

The short of it is there is no sense in playing games when it comes to the registration of your organization. It’s much easier to and safer to play by the rules in your local jurisdiction. No one knows which direction the regulatory bodies of the world are going to go in the future, and registering your business in one jurisdiction or another is only (possibly) a temporary solution to what could be a larger issue.

Token issuers should register their business where they’re located, obey local laws, and pay their taxes. Work with a lawyer and an accountant, keep it simple, and be honest.

If you were looking for a different kind of advice, you picked the wrong book.

Establishing a Timeline

With a business opportunity identified (or clarified), the team together and on the same page, and the company properly registered, the foundation is set. There are many components of a successful launch ahead, including but not limited to technical work, writing a white paper, and executing a comprehensive marketing plan.

It’s a lot of work, easily enough for two people to focus on full-time.

The next phase is more than just a time intensive period, though -- it’s one that will push your professional skill-set, force you to make uncomfortable decisions about priorities, and test the resolve of the team.

It’s best to build a plan.

I generally advise an ICO project should allow between eight and ten weeks for the ramp-up ahead of an ICO sale period. This allows for enough time to build what’s necessary, figure out what works, and execute it properly.

First, list each of the upcoming tasks and separate them into two categories: ongoing and one-time.

Ongoing tasks are items which require daily or weekly attention such as community channels, social media, e-mail newsletters, public relations, and content marketing. These are ultimately where the majority of your time will be spent but they can generally be completed passively or, with good planning, in well-managed sprints.

Items you’ll only need to do once, of course, are those that fall in the one-time category. You’ll need to generate the token, craft a company or project logo, build a marketing website, write a white paper describing your project in great detail, secure digital assets like domains and social handles, and submit your project to token directories.

And that’s the minimum viable list.

The good news about planning these items is there is a clear logical flow to it. All of the one-time items listed above should be done in the first two weeks of the project period aside from the submission to token listing directories, which can be pushed to the middle of your preparation period if necessary.

If I were starting a project today, I would begin working on the white paper immediately. The white paper, while not necessarily the most important component, is going to be the most time consuming step in this period of time. Done correctly, the white paper should be between twenty and sixty pages of dense, action-packed goodness. Between the edits, the citations, and the edits, you’ll want to get going on it on day zero.

The second tier of priorities for the first two weeks of your ramp phase contains the generation of the token and securing your digital assets. These tasks should combine to be an afternoon of work, though the token generation may require you leave your computer to sync with the Ethereum network for as much as several days ahead of time. Digital assets, we we’ll discuss later, include domains, social media handles, and accounts on community channels like Telegram, Slack, and Bitcointalk. This is a critical step to preventing fraud.

Finally, of course, there are the creative assets, the marketing website, and the token directories. Each of these are important from a branding, visibility, and SEO perspective. Don’t skimp.

The six to eight weeks that remain are for taking what you’ve made and sharing it with the world.

Many believe in one of the oldest rules in marketing, the rule of seven. The rule of seven simply states the prospective buyer needs to hear or see your marketing message at least seven times before they buy from you.

While I’m skeptical of the number seven, I buy the message. Your prospect needs to hear and see your marketing message multiple times before they make a purchase decision, so be mindful of that when scheduling your marketing effort. Each channel should be consistently active, and one should try to capture an individuals on multiple platforms when possible.

Token Launch Preparation

The ramp up to the launch of an ICO sale, generally an eight to ten week period, is where the organizational abilities of your team will be tested and there are various points in this period where the project will be exceedingly vulnerable.

In the sections that follow, I offer guidance that may be a bit more tactical and granular than the sections prior. There is risk in doing so as tactics, strategies, and trends may change, but I have worked to make them as evergreen as possible.

Writing a White Paper

The white paper holds a special place in the history of crypto: it was Satoshi Nakamoto's *Bitcoin: A Peer-to-Peer Electronic Cash System* that laid the groundwork for the leading cryptocurrency, and Vitalik Buterin's *A Next-Generation Smart Contract and Decentralized Application Platform* that lead us to the deluge of Dapps and token projects that serve as the topic of this book. Each are exceedingly technical documents containing the mathematical formulas and computer code that make up Bitcoin and Ethereum.

A white paper isn't only for announcing foundational technologies: the trend of releasing a white paper has continued as nearly all initial coin offering announcements include a white paper regardless of complexity.

Cryptotoken projects like those discussed in this book are often light on mathematical formulas and computer code, as those tasks have generally been taken care of by the underlying technologies.

Instead, these twenty to sixty page documents serve as more of a business plan, describing operations, introducing the teams, discussing the development roadmap, and laying out the terms of the token issuance. They serve as a summary document, representing who you and your company are, and what you're planning to do. These summaries, despite the lack of technical description, still demand tremendous detail and careful editing.

One of the emerging (and troubling) traits of token white papers in 2017 is a lack of uniformity. The unfortunate truth is a set of bad actors and scam artists have taken advantage of that fact to peddle projects specializing in little more than misdirection: they draw readers to an exciting product or team slide while omitting specifics around use of funds raised.

Another troubling trait is the use of no-log platforms when sharing this all-important document. A project owner might post a PDF describing an economically-sound project with promises of good-governance on day one and convince a token-buyer to participate in the sale only to replace it with a less-good paper on day three. It is for that reason that I prefer to see a token project website with a version history.

Each white paper should begin with a one-page abstract or summary of the document at the top, something that sets the tone and goals for the paper. Imagine a token-buyer with a pile of these white papers printed on their desk - as the buyer flips through the pile, they give each cover sheet a read through and decide whether to dig in or move on. Don’t miss this opportunity. Be concise, specific, and direct. As difficult as it may be, leave the buzz words out of it. Please.

Once through the abstract, it’s time to tell a story.

While the order can vary, each white paper should contain the following sections and address the following points or questions:

Organization and Purpose

What is this company? Where is it located? Is it brand new, or does it have a history and traction or share? What’s are the strategic goals for the next 12-36 months? If the company has a strategic plan or mission statement, this is the place to share it. What problem are you solving?

Token Overview

What is the purpose of the token? Is it utility, fundraising, a security, or some mixture of each? Use this section to reinforce the problem your company is solving by providing an overview of current market solutions. Why is a token superior to existing solutions, and is the token really necessary to achieve these goals?

Market

Dig into the company (and token) competition. A tell-tale sign of inexperience by a startup founder is claim they have no competition. There is always competition. This is a great opportunity to add color to the market problem established in the Token Overview section, describing how you have several different groups of competitors and leveraging that to share the size of the total addressable market. This section also represents an opportunity to describe where the founding team thinks the market is going and share enthusiasm for the product.

Solution

How does your product or service work? Use technical drawings and research to share why your token-based solution is superior to the issues in the market. It's okay if there are potential shortcomings to your solution - just name them and discuss how you're thinking of solving the issue. Include a timeline which includes when development began or when it will begin, when a beta may be released, and when you plan to have a release candidate.

Partners and Financing

Who is working on this with you? Any major corporate partners? Are there financing groups assisting with the execution of your issuance? If you have external equity holders or a board of directors, offer these details.

Team

Who are you? Who are your advisors? Provide as much detail as possible, including links to social media profiles. Serious token-buyers are going to do their diligence and try to find your team on Twitter and LinkedIn anyway, so you might as well make their lives a little easier.

Financials

Do you have historic financials to share? Share them. Do you have projections to share? Share them. As a general rule, I believe any startup projections beyond eighteen months are frivolous so don't get too carried away.

Token Issuance Plan, Terms, and Participation

Detail the token Smart Contract. How many tokens are being issued? How many tokens are being sold? Are they being sold in stages or all at once? If you're selling in stages or withholding token, explain why. How will individuals participate? Are all individuals welcome to participate, regardless of jurisdiction? When will the issuance run? Will the token be listed on an exchange? Are there any special token-holder rights? What is the use of funds?

Disclosures and Good Citizenship

While not necessary, all token issuance white papers should include a set of disclosures and/or a pledge to good citizenship in the cryptocurrency community. These can cover any range of topics, and they may vary greatly depending on the local jurisdiction of the token-issuer and any recent news on the regulatory front.

I encourage a statement clarifying whether you consider your token to be a security, along with a definition of the term security. For those interested in referencing the United States definition of a security, something like the following would serve as an effective definition: “The Securities Act of 1933 sec. 2 (a) defines “security” as: “any note, stock, treasury stock, security feature, security-based swap, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate of subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a “security,” or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.” [1]”

Further, a statement stating whether you’ve considered the Howey Test as it relates to your token will be a welcome addition for American individuals or funds. Under the Howey Test, a transaction is to be considered an investment contract if it is an investment of money, there is an expectation of profits from the investment, the investment of money is in a common enterprise, and any profit comes from the efforts of a promoter or third party. A detailed walkthrough of how your organization thinks about these questions won’t take more than a half-page, but it may be one of the most important components to your documentation.

A Forward-Looking Statement Disclaimer is a prime example of a disclosure that isn't necessary but it demonstrates that the organization is taking its guidance seriously. A popular example: "Certain matters discussed in this document are about our future performance including, without limitation, the future revenues, earnings, strategies, and prospects of [COMPANY]. All statements that are not purely historical constitute "future-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995[2]. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. When used herein, the words "anticipate," "intend," "estimate," "believe," "expect," "should," "potential," "forecast," "project," variations of such words and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements in making any personal decision."

“You can mine for gold or you can sell pickaxes.”

Token Generation

The idea of creating your own currency is an incredibly foreign idea for almost all, but I believe it’s like building your own website in the mid-90s: intimidating, to be sure, but not all that complicated.

Teams who lack familiarity with blockchain technology may find it helpful to enlist the assistance of a firm to launch their cryptotoken. While I know these firms can be dubious at best, I recognize the right to earn money in the periphery and the need to lower barriers to entry in the crypto space.

The more, the merrier.

The trouble, of course, is it’s hard to tell which firms are good and which firms are simply there to prey on the naive.

One set of tools, smart token layers, include services like those offered by Bancor and Waves who make promises like, “your blockchain token in one minute.”

This sounds great, but you don’t have to look too far to realize these are schemes that leverage (crafty) marketing to mask the fact that their function and existence runs counter to many of the things the blockchain community values.

Each of these firms ran their own ICO to produce their token with the stated purpose of building software to help people launch their own tokens. The catch is the tokens these firms help launch will be issued “on top of” *their* tokens, which intrinsically pegs your newly-launched token to BNT or WAVES.

Is your head spinning yet?

Bancor’s website doesn’t shy away from any of this: “(Bancor) forms a monetary structure where increased demand for any of the network’s smart token drives up the value of BNT, benefitting all other smart tokens.” Translation: a group of cheerleaders will help pump the sale of your token because there's economic incentive for them to have as much traffic run over the BNT and WAVES network as possible.

The true benefit of a smart token layer is not clear. Building a token on top of Ethereum is just fine. What is clear is this premise runs counter to the very spirit of blockchain: Bancor and Waves are essentially central banks that simplify the buy, sale, and exchange activity for the tokens on top of it.

Screams "scheme" to me. No thanks.

Another option, private services, are organizations or individuals who put together a landing page with an itemized list of all the things you'll need to do with a "get in touch" call to action.

These are the services that I considered when launching our ICO at Benja, as there is appeal in working directly with individuals who offer services on a custom basis (rather than cookie-cutter programs).

What doesn't appeal: the pricetag. I received quotes from four private services that ranged between $50,000 and $150,000. I've heard quotes as high as $375,000.

Yikes.

The fact is there are people who are willing to sell a $150,000 sieve or shovel, and you don't need either.

You can do it on your own.

Any instructions printed here will inevitably be outdated by the time the book prints, so the best advice would be to find the Ethereum Foundation's webpage on the topic titled *Create your own cryptocurrency contract*.

By placing this code in the Contracts section of the official Ethereum software wallet on your computer, you can enter a few simple parameters - the total supply, token name, token symbol - and create it with a few clicks.

Marketing

In a perfect world, the perspective token project has an existing customer base full of deep-pocketed cryptocurrency enthusiasts who are eager to jump into your token sale.

If that's the case, what are you doing reading this book?

Given the improbability of this perfect audience falling into your lap, your token sale is going to need a comprehensive marketing plan which captures the attention of the right people.

When launching benjaCoin, we focused on organic marketing strategies - doing things the good old fashioned way - and disregarded paid advertising entirely. You'll find this approach to be contrarian, with some ICOs spending hundreds of thousands of dollars to execute paid advertising campaigns.

Our decision to avoid paid advertising came as the result of two concerns.

The first was that the market was *so* young, it was impossible to determine who quality advertising partners would be. When I recently reviewed the ad packages we were pitched when launching our ICO just a few months ago, more than half of the publications and websites are now defunct. Dodged a bullet there.

The larger point about paid advertising is it simply didn't make sense as a means of attracting the groups who should be buying benjaCoin. Our stance that benjaCoin is a token to be bought strictly for use on the Benja merchandise ad network was and is true. We don't typically get in front of new publishers or vendors via paid advertising in the regular operation of our business, so why start now?

It didn't line up.

Instead, we leaned into building a loyal audience of parties in our prospective user pool. This means we did not get in front of the largest audience we could have and it probably means we didn’t sell as much benjaCoin as we could have, but it does mean that we kept our nose clean and we were in line with everything we promised to do in our conversations with the SEC.

Securing Digital Assets

Before speaking the name of your project to any external members, it is crucial to secure ownership of all digital assets. This includes but is not limited to domains, handles on social platforms like Twitter and Facebook, channels on messaging platforms like Slack and Telegram, and accounts on industry forums like Bitcointalk.

A uniform name across all channels will make life difficult for hackers, phishers, and theives. It has become commonplace for bad actors to register imposter accounts using real graphic assets to trick would-be buyers into sending cryptocurrency to their wallets rather than the issuing organization.

Given that cryptocurrency transactions are irreversible, this is a situation you must avoid.

These are not small or isolated incidents - Chainalysis, a New York-based security software maker, estimates that phishing scams related to ICOs have cost token-buyers more than $225 million across dozens of incidents.

This is a problem that is sure to grow and become more sophisticated as the ICO market continues to grow. Token issuers should use two-factor authentication where available, regularly change passwords, and be careful when sharing passwords among team members.

Identifying Channels

When crafting the marketing plan for an ICO, the most important consideration is who your users are. If they’re vendors and publishers like they were during the benjaCoin sale, look to build a campaign that hits e-commerce thought leaders. These thought leaders, it stands to reason, are those who are most interested in e-commerce and adtech innovation.

If your audience is one that might be involved in or knowledgeable about cryptocurrency - maybe they’re in fintech or they’re giant nerds - you have a shorter path than those whose audience has never heard of blockchain or bitcoin before.

Audiences who aren’t yet in cryptocurrency are not to be ignored, a fact that many ICOs seem to miss. They represent an opportunity for your company and for the cryptocurrency space in general.

While traveling in the midwest this fall, I found myself at a table full of venture capitalists and angel investors. When I raised the subject of ICOs and cryptocurrency, no one made a sound. As I went around the table, I realized not one of these investors had heard of anything about cryptocurrency other than bitcoin, and none of what they had heard was positive.

The cumulative net worth at that table was north of $300 million, and as we spoke, it became clear their lack of involvement had nothing to do with lack of interest. Each of them signaled a willingness and interest and privately, several told me what kept them out was a lack of quality documentation and instruction on how they could get involved.

One investor asked me, “if I wanted to buy $5 million in bitcoin, how would I do it?”

I couldn’t answer.

This perspective is not limited to the table I was sitting at a few weeks ago.

This represents both an opportunity and a challenge.

The opportunity is obvious.

The challenge is finding the right channels to deploy your marketing message on, and to do so in a way that is effective. If you’re operating in a space without a lot of cryptocurrency experience, education should be a core component of your messaging.

Regardless of the crypto experience question, you’ll need to generate a content style guide which includes a strategy for each major channel. Identifying where the core audience lives is paramount, of course, but so is determining what your ideal action item is.

The benjaCoin marketing plan centered heavily around content marketing and pushing all traffic to our e-mail signup list. The end result was an e-mail list with more than 5,000 subscribers and an open-rate that exceeded the industry average in multiples.

Our audience likes being engaged with via e-mail. Figure out where your audience lives online, and optimize for it.

Build a Content Style Guide

The top brands in the world don’t view social media as a means of promotion, they view Twitter, Facebook, and LinkedIn as storytelling vehicles. Examples are aplenty: Airbnb shares grand tales of travel adventures, Nike tells stories of people doing the impossible, and Apple amplifies the creative work of its users.

These companies and others use real storytelling techniques to connect with their audience. Much of it is textbook: often, you’ll see a classic three-act structure where the company sets the scene, presents rising action and builds tension before finding resolution.

Each of these companies have invested significant resources into building a content style guide that reflects a tone and culture aligned with their audience. They’ve built style guides that lead to content gold, resulting in posts that are interesting, creative, and engaging.

A content style guide should be thorough and far-reaching, from the question of whether to use active or passive voice, to whether your company capitalizes names in its e-mail addresses. There is no wrong answer here - every choice has its place.

The only wrong answer is inconsistency.

Unless, of course, your brand’s voice centers around inconsistency.

Broadcasted content should be universal, regardless of where your core audience lives online. Major announcements made on the Facebook page of a token project should also find their way to the project’s Twitter and community channels. It’s striking how often this doesn’t happen.

Further, I advise that if your team fields and answers a question on one channel, the team should find a way to share that answer on every channel. As well as you know your audience, people will always surprise you. It’s best to cover your bases.

Although your token is likely not a security or investment, there is a degree of risk involved - in fact, it is probably the riskiest purchase that your buyers will make this year. Respect that, and be thorough in the dissemination of your content.

When putting together a content style guide, it’s natural to focus on the *style* elements - it’s in the name, after all - and pass over logistical details. In truth, some of the operational fine points are just as big of a contributor to voice as anything. This includes details like the frequency with which the team posts and what time of day those posts are made. It may also include a defined division of labor for teams with multiple contributing members, as once those lines blur, tone and voice has a way of losing itself.

Finally, it’s helpful to identify a core success metric and set benchmarks. This way, while you’re A/B testing the various components of a content style guide, you’ll have a daily or weekly rate to check performance against.

Social Media

The titans of social media adjust their newsfeed algorithms every day which makes this a difficult topic to cover in a book.

Still, there is one tried and true method to gaining exposure across all networks: post engagement. This goes for Facebook, which cross-pollinates the newsfeeds of friends based on likes and shares, as well as Twitter which has started to do the same with increasing frequency.

There are the flavors of the month, like Facebook and their recent affinity for video and LinkedIn’s clear bias for news articles posted in their native blog publisher (vs. links shared to other domains).

There are also minor social hacks, like logging into the Twitter of your token project, navigating to the page of a competing token, and following all of their followers. It’s a bit odd, but many will at least see your project name show up on their screen, and that will count toward the seven times an individual needs to hear of your product or service. Plus: 25-30% generally follow back. Not bad.

Community Channels

The cryptocurrency community can be subterrestrial. Its closed-off nature can be frustrating at times, especially when navigating the tribulations of a strange new wallet or when trying to understand why a previously-unknown token saw a 400% increase that day.

Or so I've read.

These channels, which are primarily found on Telegram, Slack, Discord, and Bitcointalk, are where the real action is. There are no bots or social media shortcuts in these channels - the only way you can get involved is by being there and participating.

I highly recommend it. Given a few weeks and some good conversation, it won't be long before you're welcomed into increasingly private channels, away from the noise of the large public ones.

I also recommend creating a channel on the prominent chat applications to make announcements and provide a forum for your token buyers to chat. This kind of sub-community will give your token buyer confidence that they aren't waiting for your development team alone.

On Bitcointalk (and any other forums), the name of the game is the creation of an ANN thread. This ANN thread announces your token project and offers an abbreviated version of the white paper.

Forums are yet another place for token buyers to discuss the project, with a nice added benefit: the activity is indexed by search engines. A healthy, active thread will pay dividends in the search engine optimization game.

It is worth noting many forums have anti-spam rules, restricting newer members from posting too much and only allowing more veteran members to do things like post images inside of threads. This is yet another reason to dive in early and be an active participant in the community.

E-Mail Newsletters

“We’re not going to do e-mail” was a common refrain in the early days of Benja. Frustrated with Groupon’s abuse of our inboxes, we set out to stick to user experiences on mobile and web. Our personal experiences (and user behaviors) lead us to believe e-mail was dead, and we would lead the charge to kill the e-commerce newsletter.

Until we tried a few and saw how well e-mail conversion rates performed.

Surprising as it is, e-mail *just works*, so much so that we decided to drive all benjaCoin marketing activity to a landing page with a sign up for our list.

The benjaCoin e-mail newsletter sent e-mail two or three times per week to share pre-sale details, new media coverage, and news about new partnerships. We started to build a community of individuals who made conversion a habit - I would make sure to make the blue button something compelling each week so when the time came to flip the switch and make that blue button say “Buy benjaCoin Now,” it was a familiar behavior.

Your e-mail list is sacred - build it organically, require double opt-in, and don’t give it away to other people. An e-mail is a direct line to an individual who is interested in what you’re building - it’s not something that can be filtered out by a newsfeed algorithm - and that’s something worth protecting.

E-mail wisely.

Public Relations and Content Marketing

If you have a newsworthy product, talk about it until your industry publications have no choice but to cover it, even if that means the headline is *Local Moron Won't Shut Up About Startup*.

If you have a product that isn't newsworthy, PR is not a worthwhile pursuit. Save everybody the time.

A quality pitch, as most journalists will share, is concise and to the point - try not to let it run longer than a few sentences and include links to additional information. This makes your pitch easy to manage and make a decision on quickly.

A quality PR pitch will also provide a media kit. In my experience, this is most often a shared Dropbox folder containing summary docs (of varying lengths), logos, screenshots or images of your product, previous coverage, and team biographies (including high-quality photos). I've have too many great pieces of coverage ruined by a blurry, low-resolution photo. That's a totally avoidable situation.

It's good practice to put yourself in the shoes of these journalists. You may think your inbox is a difficult place to navigate, but imagine working at TechCrunch and receiving hundreds of startup pitches per week.

Make life as easy as possible for the journalists you're working on. These writers hold the key to quality native exposure, and a piece on the right domain can do wonders to your online footprint and search engine visibility.

For achieving search engine visibility, content marketing is another quality strategy. This most commonly takes the form of a guest post by a member of your founding team in a publication or website.

There's the right way and the wrong way to go about this, and I'm always surprised by how frequently PR reachout is completely botched. It's rather simple: the right way is to find a good industry publication, reach out to the editor (or contributing editor), and pitch your content. This may take a few days to pull together but by bringing the editor into the process, you're increasing your chances of prominent visibility on their website.

The wrong way is to chase contributor networks. When the Huffington Post and BuzzFeed opened contributor networks earlier this year, it became common for ICO projects to tote their placement in these well-known publications. The truth is that anybody can post content in these contributor sub-domains and they are not picked up or indexed for exposure unless an editor manually selects it. It's a cheap trick that is a waste of your valuable time.

Bounty Programs

A bounty program incentivizes members of the crypto community to share your ICO project in exchange for small amounts of free token.

Executed correctly, a bounty program can provide exposure on Reddit and BitcoinTalk, increase reach on Twitter and Facebook, YouTube videos, blog posts, and more without representing an actual out-of-pocket expense by the token issuer. Obviously, this has made it a leading tactic for many projects these last few months.

I do not advise token projects to offer a bounty program, however, for several reasons.

The first is a bounty program can destroy the underlying economics of your token and ensure it will never reason its utility. In a world where maintaining a stable token price is important, you don't want to have token holders with a cost basis of zero. They would have economic incentive to sell for as much as 99% off of the list price since *anything* represents a profit.

Further, many bounty programs compensate participants without requiring a disclosure that they're being paid to generate the content. The United States and the United Kingdom have "truth in blogging" laws which requires bloggers to disclose when they receive a free product to review it, when they receive commission on an affiliate link, and when they receive money, product, or services for posting about a product or company. I suspect many bounty programs violate these laws.

Most importantly, and the reason we did not pursue a bounty program as part of the benjaCoin sale, is my personal belief that a bounty program leads to a direct failure of the Howey Test. A key question of the Howey Test is whether profit comes from the efforts of a promoter or third party.

A bounty participant is always a third party (as they are not a direct employee of the firm or the token buyer themselves), and there is profit generated both for the token issuer and the bounty participant. It feels like that won't fly with the SEC, and that's not something I'm willing to test.

Listing Platforms

ICO listing sites are where the schemist, slimiest activity happens in this whole vertical.

There are ICO listing sites that are strictly pay to play. After achieving some search engine visibility (compliments of a quality domain and some cheap growth hacks), some will demand between $100 and $10,000 to be placed on their list of upcoming ICO events.

Others might offer to list your token for free but try to upsell you to a featured listing, bumping your project to the top of the list in exchange for a fee.

The worst, however, are those who pretend to be good actors, claiming they are looking out for the health of the ICO market. These are listing sites which might list a project for free but request the project pay for a rating service to qualify projects. It should be no surprise that when Benja refused one such service, we earned a 2.6 out of 5.

A few weeks later, a friend refused the service and earned a 2.4 out of 5. He then e-mailed the company, paid for a rating, and “earned” a 4.4 out of 5.

That’s some bullshit.

Our strategy with benjaCoin was to gain placement on each site that would let us do so for free, and these sites turned out to be the greatest external driver of traffic.

Launching a Token

The traditional token sale takes place over a crowdsale contract deployed through the Ethereum wallet. Like the token contract itself, the source code is available on the official Ethereum website.

The crowdsale contract asks you to specify parameters like what the price of each token is (in Ether), the fundraising goal, and the duration of the sale. These are items that you figured out while drafting the white paper. It will ask for the address of the token contract (confusingly called the token reward address).

Once deployed, send an amount of your token equal to your fundraising goal to the crowdsale contract address. This will enable an automated process in which a token buyer will immediately receive his or her token once the transfer of Ether is confirmed.

Other methods exist, like working with an exchange to run your sale through their platform. When we agreed to do this at Benja, we underestimated how much of a barrier this would be for our prospective buyers. I suspect we lost a significant amount of business asking buyers to register for a relatively new exchange and I'm not sure that we would pursue that path again.

Another good token issuance option, especially for those running a "know your customer" (KYC) campaign, is to set up the wallet(s) to receive cryptocurrency and batch the token out manually, at a later date. This is a popular method for ICOs interested in accepting multiple currencies or when a project wants to verify the identity of a buyer before sending the token.

Though the ramp-up period is over, the token marketing operation should continue at full speed. The nature of these updates will be different, of course, as you share fundraising updates and development news, but it's vital to maintain the regular line of communication your audience has come to expect.

And in my experience, there is one topic the audience will care about more than any other: which exchanges the token will be listed on.

They will expect a new token to find a home on small or young exchanges initially, but hope for listing on those with large audiences like Poloniex and Bittrex. The larger the audience, the more potential buyers, and the more your buyers might expect the value of their token to increase. I generally avoid decisions made to build the token price, and advise to focus on the exchanges that best match the needs of your project. The exchange listing process is usually straight-forward: just e-mail and ask.

Conclusion

You’re part of an entirely new world now. Those who operate a token listed on public exchanges are a rare breed of mavericks and dreamers.

This is a group that is generally eager to move beyond the illusion that is government-issued currency, and believes in a fair and democratic form of fundraising. There is tremendous potential in token issuance technology and cryptocurrency, potential that many in the world have not yet seen.

And with the space evolving at such a rapid clip - trust me, I had to re-write large sections of this book on multiple occasions thanks to the huge-deal news items that drop each week - it’s safe to say I found what I was looking for when I moved to San Francisco.

This is where the action is.

Just don’t forget: you’re now on the hook to deliver.

[1] https://www.sec.gov/about/laws/sa33.pdf

[2] https://www.gpo.gov/fdsys/pkg/PLAW-104publ67/html/PLAW-104publ67.htm