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Currency Exchange

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Week 1

Mission Statement

Industry Analysis

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# Mission Statement

Our mission is to provide a safe and reliable place for customers to exchange currency.

**Provide:** We are a first and foremost a service provider. By maintaining a digital currency exchange we will provide an important currency exchanging service.

**Safe:** The safety of the currency customers have entrusted to the exchange is a paramount concern. Only customers who trust us will be willing to use our service. Building trust begins with demonstrating our ability to keep our customers money safe.

**Reliable:** Currency Exchange will operate 24 hours a day 7 days a week. The continuous availability of our services with demonstrate to our customers both our reliability and commitment to our customers’ needs.

**Place:** Currency Exchange is a place where customers can come to safely exchanged on currency for another. Providing an online place for currency to occur is our primary business.

**Customers:** Our customers are our most important asset. Finding new customers and maintaining current customers is and will always be a principle goal of Currency Exchange. For this reason customer satisfaction will be an extremely important measure of success.

**Exchange:** Currency Exchange core service we provide and this service is made possible by the online digital exchange that is a the heart of the company

**Currency:** The exchange of one currency for another is a vital function of the modern global economy. Crypto-currencies are a new form of money and the exchange between these new currencies and traditional government money is critical factor in their continued adoption.

## Core Competency

The core competency of the currency exchange is the operation of a 24 by 7 digital currency exchange. The account management and transaction processing that is vital to the operation of a digital exchange will be the primary area of expertise Currency Exchange will demonstrate.

# Industry Analysis

## NAICS

*U.S. Census Bureau 2012 NAICS Code:* 523210

*Title:* Securities and Commodity Exchanges

*Definition:* “This industry comprises establishments primarily engaged in furnishing physical or electronic marketplaces for the purpose of facilitating the buying and selling of stocks, stock options, bonds, or commodity contracts.” (NAICS, 2012)

## Industry history

Currency trading has been going on for a long time. “Foreign-exchange trading dates back to ancient times.” Throughout history countries and banks have engaged in currency trading. In 2013 on average $5.3 trillion dollars changed hands each day. (Levinson, 2014) Prior to 2007 most currency trading involved government issued currencies (e.g., US dollars, Chinese Yuan). However in 2009 Satoshi Nakamoto introduced a new non-government currency.

## “Bitcoin is the first implementation of a concept called "cryptocurrency", which was first described in 1998 by Wei Dai on the cypherpunks mailing list, suggesting the idea of a new form of money that uses cryptography to control its creation and transactions, rather than a central authority. The first Bitcoin specification and proof of concept was published in 2009 in a cryptography mailing list by Satoshi Nakamoto. Satoshi left the project in late 2010 without revealing much about himself. The community has since grown exponentially with many developers working on Bitcoin.” (“Bitcoin Faq,” 2015) Since its introduction there have been a growing number of businesses and individuals using Bitcoin. One way to acquire Bitcoin by is by purchasing them at a Bitcoin exchange. This has created a new industry around the exchanging of Bitcoin for government issued currencies.

## Industry profile

*Background:* In the early days of Bitcoin the only way to acquire them was to “mine” them, a process of solving a mathematical problem the resulted in the creation of a new Bitcoin. On July17, 2010 MtGox was established as a currency exchange where customers could go to purchase and sell Bitcoin.(“History of Bitcoin,” 2015) Between 2010 and 2014 several currency exchanges established throughout the world. In February 2014 Mt. Gox suspended trading following the theft of 850,000 Bitcoin valued at over 450 million dollars belonging to customers of the exchange. Mt. Gox’s collapse was the first of several exchanges to cease operations. As the value of Bitcoin rose and transaction volume increased these early exchanges proved to be easy targets for international hackers.

*Key industry players:* As the first Bitcoin exchanges collapsed several new exchanges were established with stronger safe-guards against hackers and thieves. Today the industry is dominated by six exchanges; BTC-e, Bitstamp, Kraken, Cryptsy, CCEDX and ICE3X. These six exchanges have a combined daily volume of 71,000 bitcoin valued at over 16 million US dollars.

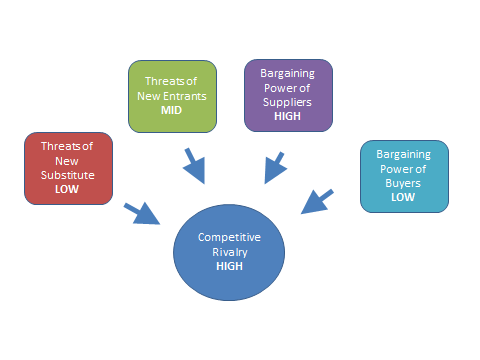
*Trends*: Despite the collapse of Mt. Gox and the resulting price fluctuations the remaining exchanges have seen steadily increasing transaction volume. Throughout the world an increasing number of business and individuals are using Bitcoin. This increased use is driving demand for currency exchanging services.

*Forecasts:* After a year of wild fluctuations in 2015 the price of Bitcoin stabilized. Price stability together with the increased trading volume indicates a positive future for the Bitcoin and the supporting crypto currency ecosystem. As use of new currency spreads there will be an increased demand for currency exchanges.

## STEP Analysis

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| --- | --- |
| Social and Cultural Forces | *Opportunities:* The near collapse of the banking industry in 2008 has resulted in distrust in the currency system we depend on. Crypto currencies are legitimate alternative. Adoption of crypto currencies will increase demand for currency exchanging. |
| *Threats:* Black market online sites have adopted crypto currency. The association with illegal activities may discourage mass adaption and decrease need for currency exchange. |
| Technological Advances | *Opportunities:* Blockchain technology has created a viable form of money that is safer and less expensive then government currency. As use of the new technology spreads demand for support services such as currency exchange will increase. |
| *Threats:* Demand for currency exchange is driven by crypto currency use which relies on blockchain technology. Blockchain technology demands on unbreakable encryption. I technological advances enable the breaking of current encryption systems crypto currencies be rendered obsolete. |
| Economic Trends | *Opportunities:* Online sales continue to grow. Crypto currencies especially useful for online transactions, they are both safer and cheaper than current payment options. Continued growth in online commerce creates additional demand for crypto currencies. |
| *Threats:* High unemployment and stagnant wages is decreasing consumer spending. Less spending will result in decreased demand for currency exchanging. |
| Political and Regulatory Factor | *Opportunities:* New York city has recently established the BitLicense the first license for crypto currency exchanges. The first few exchanges to obtain the new license will likely attract early adopters of crypto currencies. |
| *Threats:* Governments throughout the world are discussing what should be done about cyber currencies. To date only two have out right banned them. There is always the possibility that a government could prevent the spread of cyber currencies. |

## Michael Porter’s Five Forces



*Bargaining power of suppliers:* High. There are only a few exchanges, 90 percent of daily volume comes from only three exchanges. Customers have few choices and must deal with one of the dominate exchanges. Currencies exchanges are more attractive to customers if they have many buyers and sellers. Because most crypto currencies buyers and sellers are in one of the big three exchanges new customers are very likely to use one of those exchanges which increase their domination of the currency market.

*Bargaining power of consumers:* Low. There are only a few exchanges in operations. Customers looking to buy and sell cyber currencies deal with the handful of exchanges.

*Threat of new entrants:* Mid. Crypto exchanges are primarily online business with a well understood business modeled. It is technically easy to design and build an online currency exchange. However, a currency exchange is only useful if there are many buyers and sellers. For this reason customers gravitate toward the most used exchanges which offer many buyers and sellers. Attracting new customers is extremely difficult for a small exchange.

*Threat of substitute products:* Low. New payment methods are difficult to introduce. Customers will not use a new form of payment until merchants except it. Merchants will not purchase equipment to except new forms a payment until customers are using it. In the six year following the introduction of Bitcoin the currency has seen exponential growth in both value and number of people using it yet still represents only a fraction of global commerce. It can take decades for a new payment to gain wide acceptance so it is unlikely that a substitute will come in the near future.

*Rivalry amongst existing competitors:*Low. There is little competition because there are virtual no options for customers. The market is dominated by a few exchanges and the difficulty involved with new entrants and the lack of alternatives reduces the treat of competition for the dominate players.

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