

## STEPN – Prominent P2E Pioneer or a Pseudo Ponzinomy

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*“I move, therefore I am.” – Ser Haruki Murakami*

- **STEPN, The Overview:**

STEPN is a multichain (Solana/BSC) Web3 category-defining lifestyle app with Social-Fi and Game-Fi elements to incentivize users to adapt to a healthier lifestyle. Users equipped with NFT Sneakers – walk, jog or run outdoors to earn GST, which can be used/burnt to level up and mint new Sneakers. Players can choose to lease/rent (upcoming feature) or sell their NFT Sneakers on the in-app Marketplace. Users' GST earnings are stored in the in-app Wallet, which has a built-in Swap function.

- **Stellar Founding team and firm adherence to Strategic Roadmap, The Founder-Product Fit:**

Founded by Huang (a serial entrepreneur, building games since 2008) and his co-founder Yawn Rong (co-founded "Crypto SA Lab", a blockchain VC and has experience with multi-brand franchise businesses) in Adelaide, Australia, STEPN debuted at a Solana hackathon. Jerry and Yawn are old neighbors and close acquaintances with demonstrable domain knowledge. Moreover, there is a solid team having deep expertise along with a good set of advisors. They resiliently stick with the envisioned roadmap despite crypto turbulence.

- **Magnificent traction, The Growth:**

Even with the limitations on onboarding new users (10K), STEPN clocks ~3Mn+ MAU / 800K+ DAU (and growing). With almost 10Bn in trade volume and representing 2% of Solana's daily transactions, STEPN is one of the most popular DeFi protocols on Solana.

- **Revenue channel, The Business Model:**

STEPN takes small taxes (2-8%) from in-app activities, such as NFT trading, Shoe-minting, and Shoe-rental\*. STEPN has amounted to ~\$100M monthly revenue, with a daily net profit of \$3~5M. As of May 22, the market cap of STEPN's native token GMT stood at around \$611 million. STEPN has generated a profit of 198,635.62 SOL (~\$26 Mn) just from the NFT Marketplace trading/royalty fees in Q1 2022.

- **A head start in Fast-Paced and Under-Served Market, The Upside:**

The blockchain gaming space has seen \$2.5 billion in investments in Q1 2022, itself, compared to the \$4 billion raised in 2021. In addition, the fitness industry is growing steadily with a CAGR of ~8% and a recent trend has shown that people are deliberately choosing/spending on an active lifestyle which itself creates a colossal addressable market.

STEPN has pioneered the move-to-earn space with almost no clear/significant competitors (Genopets, VIRTUAL, Sweatcoin, etc. still have a long way to come), which gives it a solid and pivotal early mover advantage. It has gamified fitness and has an opportunity to create sustainable economic flywheels (e.g. partnerships), where players are rewarded proportional to their physical activity, incentivizing an active lifestyle all the while generating a passive income, signaling a huge upside.

- **Value Proposition, The Worthiness:**

STEPN is solving both the persisting problems of making fitness interesting and Web3 adoption with incentives for millions. By tapping the element of the Habit creation (which comprises an intrinsic retention factor), it made the user engagement almost reward agnostic even if the incentives decrease over the period. Moreover, the STEPN sneakers have also attracted a good chunk of collectors as well to the platform for social status

- **Tokenomics, The Equilibrium:**

STEPN has a dual token economy model similar to Axie Infinity; GST (similar to SLP) is the uncapped utility token, with numerous burn incentives and GMT (similar to AXS) is the capped governance token, fairly distributed and low IEO price. Their in-app activities are strategically designed to keep the volatility in check, retaining a decent equilibrium of demand and supply.

- **Unique positioning and Low Barrier to Entry, The Moat:**

The stickiness of the fitness model is already established (as shown by Strava, MyFitnessPal, Nike+, etc.), and it forces users to engage actively with the app for health benefits (e.g. Sweatcoin).

Move-to-earn puts STEPN into a unique position, as active participation is anticipated, even without the soaring economic incentives. Moreover, as per the officially released statistics, there is only 24.4% of “Only run/repair and transfer out” users are on the platform, the remaining ~76% significantly contribute to STEPN’s revenue. It’s hard to acquire and maintain such a healthy/distinct mix of the user base. Furthermore, STEPN’s strong and hyperactive presence on all the social media channels with frequent to-and-fro communication/participation between community and leadership is hard to be replicated (demonstrated by STEPN’s Action Plan incorporating the community suggestions). The novel “rental model” (lowers the entry barrier), AI-Based anti-cheating, proposed dynamic pricing to combat speculation, and inclusion of “social elements” (e.g. offline events) provide the required moat to the company.

- **Unit Economics, The Micros:**

CAC to acquire/retain a user is ~1800\$ (might be lesser with the GST correction) for a year, in contrast to the average revenue generated by the user through obligatory Shoe Price (1000\$), marketplace fees (200\$), deflationary sinks (400\$), and ad revenue (250\$). It’s a very neck-to-neck challenge to sustain such unit economics, with currently designed incentives. Since STEPN is still in the Beta phase, the acquisition cost would subside, eventually.

- **Speed Breakers, The Risk:**

1. A play-to-earn game is hardly sustainable if it’s overrun by mercenary players and speculators. Furthermore, the pure mint-and-sell activities hinder the expected experience of the product. For a good balance, STEPN has to relentlessly monitor and nudge the right behavior of its users.
2. Mechanism discovery for the best token economy in blockchain gaming is pretty difficult (as shown in Axie Infinity’s case) and filled with uncertainties.
3. Reliance on the new entrants to buy shoes (obligatory) may give an impression of a Ponzi scheme. (Though the user purchases the shoes from the other players/minters and not from the STEPN)
4. The recently launched cross-realm energy bridge brought about the scope of exploitation by users.
5. The lack of self-adjusting mechanisms for the in-game assets which are by default inflationary in nature can lead to unmanageable accumulation, consequently, blocking the general in-game economic circulation.
6. Blockchain Games are having a hard time deriving meaningful engagement and finding the right segment of players from the users, STEPN should up it’s game on Social components a bit faster.

- **Final Thoughts, The Conclusion\*:**

With the rise of the attention economy, Blockchain gaming has taken the world by storm. In addition, there is a notable surge in the fitness industry as well, and STEPN lies in a very sweet spot at the intersection of both sectors. STEPN is one of the projects that has done extremely well during the BTC downtrend. The war chest of STEPN is impressive enough to survive the crypto winter. A P2E game runs into the death spiral if it’s been plagued by the disproportioned set of users (who enjoy the game vs users who are into it just for the money), but STEPN has strategically acquired a bit ideal user base (a healthy mix of runner, minter, and collectors as well). It would be interesting to see how STEPN will tune and tweak internal fees, incentive design, and user behavior to envisage solid unit economics. Furthermore, STEPN is making the world a fitter place and breaking the mass Web3 inclusion hurdle (Carbon Neutrality as a bonus). Though token engineering is a tad difficult in the P2E segment, with a solid product use case, strong user base, adequate business model, and almost no competition in the respective space, STEPN, is likely to soar high with unprecedented opportunities, globally.