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# The Fundamental Principles of Utility Tokens in the Blockchain Ecosystem



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Tokenization is an aspect of blockchain technology that is enabling the effective transfer of value across the internet. The fluidity and liquidity created by this concept helps to connect products and services while defying the restrictions of location and continually breaking the barriers of compatibility.

## What are Utility Tokens?

A class of token that is growing in popularity and proving to be very essential within the blockchain ecosystem are 'Utility Tokens'. These class of tokens primarily exist as accessibility elements on the blockchains that they represent. A more interesting concept about these

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tokens is the versatility that they offer by revolutionizing existing concepts, creating new ecosystems that empower the participants therein.

The CEO of Never Stop Marketing, Jeremy Epstein explains to CCN that Utility tokens confer a right on the holder to participate in the network in some way. Such tokens may give holders a right to use the network and take advantage of its services to vote on the governance of the network and its upgrade. For example, a decentralized **Uber token** might give you the right to take a ride whereas an ARK token gives you the right to vote on the direction of the protocol via its delegated proof-of-stake model (DPos). This is different than a security token where you earn income just by holding.

## Single Ecosystem Entities

Apparently, the function of any particular utility token is determined by the solution offered by its parent blockchain. While Uber tokens give right to rides and ARK tokens enable voting eligibility as mentioned above, events planning and management blockchain startup **KickCity** offers utility tokens that will enable events platforms to plug unto the blockchain protocol. Imaging events platforms like Eventbrite, Ticketmaster and Meetup.com on the blockchain with a reward system that enables effective marketing. Such systems will permit event tickets to be sold beyond localized areas with a blockchain automated reward system to participants.

According to the CEO of **Sociall**, Jade Mulholland, in comparisons to other major currencies like Bitcoin and Ethereum, utility tokens serve a very important purpose and commonly only exist within a single ecosystem. Mulholland elaborates that while Bitcoin serves as a form of payment or a store of value, utility tokens can usually only be used inside of a single platform to serve fundamental purposes such as making a purchase for a good or service.

*"In our project we have a utility token called SCL. Our token will be used as the native currency within the platform for purchases instead of traditional money (AUD, EUR, etc) or other cryptocurrencies like Bitcoin or Ethereum. SCL will not be used outside of Sociall. It will only exist within our platform", he says.*

## Functionality and Value

With blockchain technology there is a lot of versatility, and that is one of the key reasons why it finds adaptability in almost every aspect of human existence. No matter the specific purpose of a given token, be it for security, equity or utility purposes, it always plays a significant role in establishing the platform which it serves. Therefore in general, tokens can be appreciated as the lifeblood that sustains the parent blockchains.

Galia Benartzi, Co-founder of Bancor explains how FINMA's recent opinion paper identified three types of tokens – asset, payment and utility tokens- while acknowledging the existence of hybrid models. According to Benartzi, at their core, utility tokens provide access to a specific application or service (which can be decentralized) or the right to contribute work within a community-owned network. Utility tokens can be staked, or locked under some terms, in order to gain privileges in an ecosystem, which creates strong incentives for users to behave. He describes these tokens as the lifeblood of today's emerging online economies, motivating and mobilizing participants (including for-profit entities) to collectively provide an integrated

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set of solutions, while sharing the same database, user base and currency.

*"Since online economies utilize their own unique utility tokens, economic growth means that participating businesses will see the value of their tokens increase as the network grows, enabling them to scale their operations, and profits, as well. This collective incentive and benefit structure is the essence of a functioning distributed model and the main driver of its network effect", says Benartzi.*

Beyond the primary functions of these tokens, they all have the inherent capacity to serve as investment vehicles and elements of transfer of value. This capability is based on the basic economics of demand and supply. Hence platforms that are popular and attract more users naturally find their tokens rising in value within the marketplace. This is the fundamental idea behind speculation and trading within the cryptocurrency market and the volatility that exists therein.

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