GameFi Monetization: A Framework for Redefining Play-to-Earn

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Key Insights

- Today's traditional gaming industry monetizes through social (assets with social value) and utility (assets with in-game value).

- There are apparent flaws in the play-to-earn (P2E) gaming model, primarily that P2E creates a pay-to-win game dynamic and requires significant upfront investment prohibiting more players from participating.

- Gaming monetization typically falls along two axes, utility value and social value. Most NFT games have opted to monetize for utility value when their games might be better poised to monetize social value.

> "I believe business model innovation is more disruptive than technical innovation" - Fred Wilson, co-founder of Union Square Ventures

Like its fictional characters, the gaming industry keeps evolving. The sector consistently lies at the edge of disruption, where it has historically discovered both technological and business model innovations and adapted them to ever-changing demands.

MESSARI
The Evolution of Gaming Monetization
Gaming monetization strategies by category
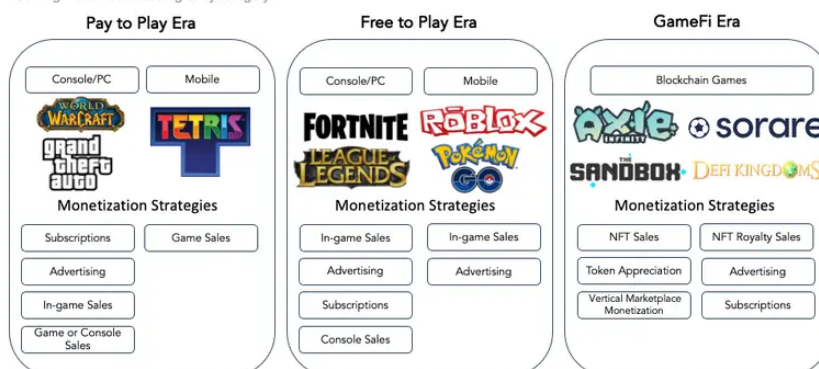
Source: Messari

The gaming industry's most recent innovation wave has been the rise of GameFi — the greater financialization of gaming assets. The first GameFi monetization model — play-to-earn (P2E) — was popularized by Axie Infinity. Players can purchase Axies to earn SLP, an in-game commodity used for breeding Axies. The economic success of Axie resulted in a slew of copy-cat games and NFT games that supercharged the play-to-earn model via staking models.

Pay to Play-to-Earn: The Flaws of Speculative Gaming

The inherent speculation and reflexive flywheel created by the play-to-earn gaming model has created gaming brands with multi-billion-dollar fully diluted valuations like Axie Infinity, DeFi Kingdoms, and Star Atlas, among others. However, the existing play-to-earn gaming model has several severe flaws that prevent its long-term success.

First, the ability to purchase NFTs or in-game currency effectively creates pay-to-win game mechanics, a quality that most major franchises and successful games avoid. The most successful games often share an element of skill, opting to create a competitive multiplayer gaming experience and avoiding a "spam the credit card until you win" option.

Second, most play-to-earn games require a significant upfront investment (from hundreds to thousands of dollars) in NFTs just to play the game. This naturally prohibits many potential users from playing and further enhances the pay-to-win dynamic.

Finally, ask 100 crypto gamers if play-to-earn games are fun, and almost in unison, you'll hear a resounding "No...but I'm making money." Players making money via routine gaming actions is not a sustainable recipe for franchise success. The end result is the same — gaming mercenaries will move from one yield farming game to the next, ever in search of greener pastures.

### A Note of Scholarship Programs

"You keep using that word. I do not think it means what you think it means."
- Inigo Montoya - Mason Nystrom

Often P2E yield farming activities are supported by "scholarship programs." For instance, Axie's scholarship program lets poorer gamers (scholars) borrow assets from wealthy NFT holders by sharing a portion of the yield generated by the scholars. Effectively, scholars perform repetitive in-game activities and split a portion of the profits with the NFT owners. Gaming Guilds like Yield Guild Games have expanded the scholarship program, supporting over 20,000 unique scholars. While admirable that YGG enables individuals (predominantly in developing regions like Southeast Asia, the Philippines, and Latin America) to earn an economic reward for their labor, these game dynamics are likely unsustainable. The continuation of the

scholarship program, which is more akin to a job, necessitates the continued growth of yield-bearing opportunities in Axie Infinity.

Borrowing from Traditional Games: NFT Gaming Monetization

Today, most games monetize recurrent revenue on one of two axes. The first axis is social value — selling in-game assets that showcase status or cosmetic value but do not impact gameplay. Fortnite is the canonical example that has built a successful business by selling digital skins or cosmetic upgrades to weapons. Roblox monetizes via subscriptions of Robux which can be spent within a variety of third-party developer-built games, some of which prioritize utility while others monetize via social value. Finally, games like GTA enable players to purchase items that help them complete the storyline faster; however, there is also an element of social value in owning certain types of assets (e.g., Lambo vs. Prius).
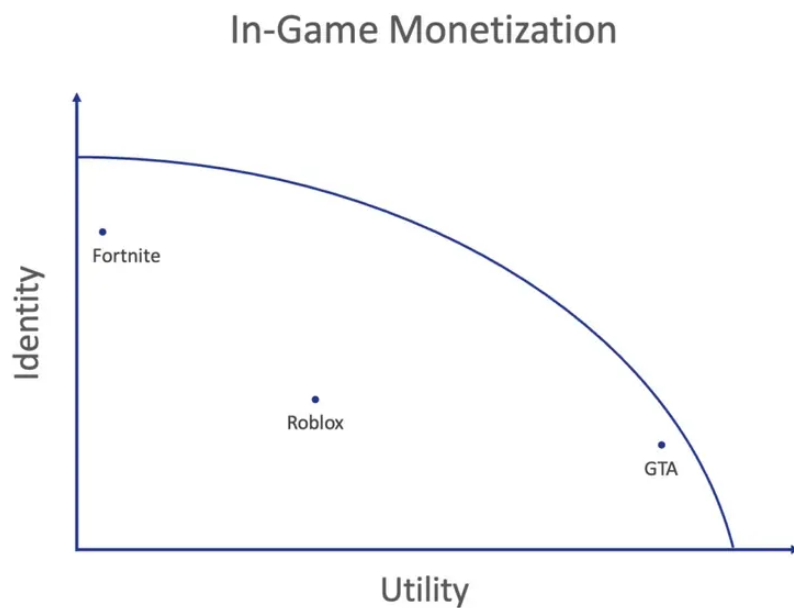
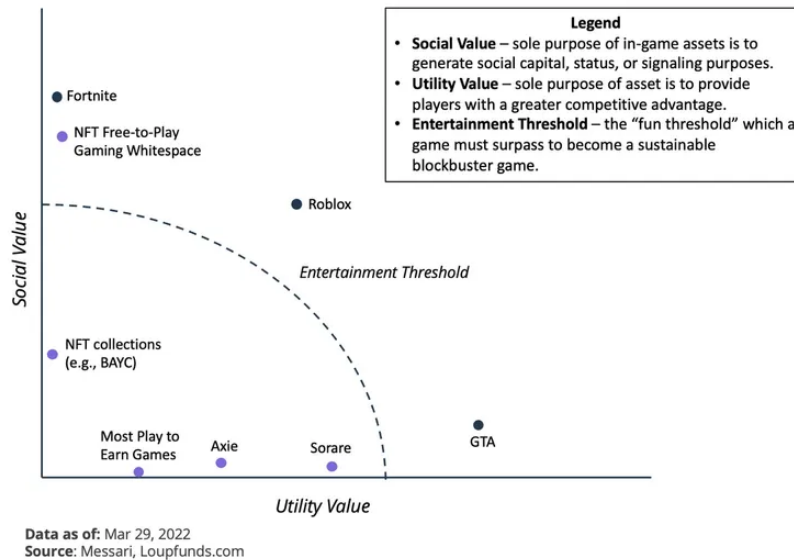

Source: *Loupfunds*

This model can broadly be applied to crypto gaming as well, with the critical distinction that recurrent revenue typically comes via secondary trading fees rather than subscriptions (i.e., Fortnite V-Bucks and Roblox Robux).

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A Framework for NFT Gaming Monetization

Legend
- **Social Value** – sole purpose of in-game assets is to generate social capital, status, or signaling purposes.
- **Utility Value** – sole purpose of asset is to provide players with a greater competitive advantage.
- **Entertainment Threshold** – the "fun threshold" which a game must surpass to become a sustainable blockbuster game.

Social Value (y-axis), *Utility Value* (x-axis)

- Fortnite
- NFT Free-to-Play Gaming Whitespace
- Roblox
- *Entertainment Threshold*
- NFT collections (e.g., BAYC)
- Most Play to Earn Games
- Axie
- Sorare
- GTA

Data as of: Mar 29, 2022
Source: Messari, Loupfunds.com

The NFT gaming playbook has focused on selling NFTs and combining staking or yield farming to create financial incentives to "play" the game. There are no notable NFT games that concentrate on monetizing via social value, although there are NFT projects like BAYC and other collections that monetize predominantly on social value.

Most NFT games fail to surpass the Entertainment Threshold — the point in which a company or developer has created a game exciting enough to be sustainable beyond the financial incentives offered to users.

A Quick Note on Utility NFTs

As stated earlier, having tradeable NFTs that provide competitive advantages quickly morph into pay-to-win dynamics, so most NFT games should avoid this gaming design space. However, there are instances where NFTs based on utility make sense in a game. Time-saving NFTs (but non-competitive) are potential mechanisms for game designers to approach NFT integration. One notable example is MMORPGs like Runescape or World of Warcraft, which have a variety of common objects such as resources, like wood, gold, and bricks required to build other resources but do not inherently make the player better at the competitive aspects of the game. Combining these types of common NFTs with non-tradeable competitive or social NFTs is a much better way to create utility-based NFT games.

Exploring the Whitespace: Free-to-Play-to-Earn (F2P2E)

Even with its faults, the play-to-earn model presents a novel dynamic for bootstrapping a gaming economy. A free-to-play-to-earn (F2P2E) gaming model might suit crypto games better than the pay-to-play-to-earn (P2P2E) model.

It's worth noting that poorly designed free-to-play (F2P) games are still gameable like P2E games, which means F2P games have to employ more effective monetization strategies. Imagine a game where skins (e.g., avatar clothing) only provide cosmetic benefits, but individuals in the game must still play-to-earn the resources required to craft avatar skins. This still embodies a play-to-earn game with a vibrant secondary economy but doesn't cascade into a pay-to-win environment.

Final Thoughts on Play-to-Earn

The play-to-earn model popularized by games like Axie Infinity was a turning point in the NFT gaming sector. Billions of dollars will be invested into this space over the coming years, but most are searching for an Axie-esque game, despite a new model being what will bring the next million gamers. A free-to-play-to-earn model would be able to leverage the play-to-earn flywheel while also sustaining a competitive environment and robust economy.

NFTS   METAVERSES

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The Sandbox
SAND
$3.38 (-7.92%)

Axie Infinity
AXS
$62.32 (-5.20%)

DeFi Kingdoms
JEWEL
$10.85

Star Atlas
ATLAS
Data not available

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