**The Exchange of the Future**

A coinbase transaction represents a payment to a miner of a block of BTC. This type of transaction is seemingly a fitting name for my company of choice, Coinbase. In the following case study, the reader will not only be able to appreciate the witty name this digital currency exchange has selected, but will also be introduced to origin, business activities, landscape, results, and recommendations related to Coinbase.

Coinbase operates as an online financial services company that provides digital currency for general transactions around the world. Coinbase was founded on 5/14/2012 by Brian Armstrong, Fred Ehrsa, and Blockchain.info co-founder Ben Reeves. However, Reeves abandoned the company due to disagreements with Armstrong on how the Coinbase wallet should operate. In its early stages, Coinbase received a $5 million-dollar investment from the venture capital firm Union Square. The funds were used to cover operating costs and hire engineers, designers and business-support staff. Coinbase came into fruition because the founders felt that digital currency can impact the world in three main areas including; innovation, efficiency, and equal opportunity.

The Coinbase founders recognized that many companies with great ideas never make it past the early stages of the business life cycle due to the high friction of payments. Coinbase hopes that in the future, a business forming in a remote village has the same opportunity as a hot Silicon Valley startup. International payments offer participants the worst of both worlds, being both slow and expensive. “Why does it take longer to wire money to Australia than to fly there? Why do U.S. bank transfers take 3 business days and not work on weekends? Why is there a 2–3% tax on almost every retail transaction in our economy (credit cards) when it is just moving bits from one data center to another?” Each country and payment company run their own proprietary system causing monopolies or oligopolies in each market. Coinbase believes the world’s payments should run on an open protocol. They believe this will lead to large efficiency improvements. Currently about 1/3 of the world lives on less than $2 per day, and about 90% of this population does not have access to a bank account. This leads to the smallest financial miscalculation or setback potentially being catastrophic for this population. Fortunately, nearly 100% of the developing world now has cellphones. The traditional banking model of earning interest on deposits does not work for people with a scarcity of money. Coinbase looks to bring financial services to the developing world, the only requirement being they must have a smart phone. Coinbase hopes to create an open financial system for the world by being the easiest place to buy and sell digital currency, and by creating impressive application prototypes. Coinbase’s original short-term goal was to make it as easy as possible for people to convert their local currency into and out of digital currency. This meant including as many countries and payment methods as possible, building relationships with regulators, and connecting to the traditional financial world. Once the infrastructure behind the digital currency matured, Coinbase looked towards adoption. Coinbase created an easy to use app that acted as the actual product that end consumers and businesses used. Currently Coinbase has two core products a Global Digital Asset Exchange (GDAX), used for trading a variety of digital assets on its trading platform. They also offer an API for developers and merchants to build applications and accept payments in digital currencies. It was reported that in 2018, Coinbase offered trading functionality in 32 countries and their cryptocurrency wallet was available in approximately 190 countries.

Coinbase is a member of the broad Blockchain and Cryptocurrency FinTech domain, as well as the open banking domain. In 2017 the crypto market exploded; most cryptocurrencies went up thousands of percent in price. The media began writing about missing out on the crypto craze and this drove millions of retail investors in to the crypto world. However, in 2018 the market fell from $830 billion to $100 billion dollars. This is largely a result of regulatory infrastructure not being ready. Regulators have begun and will continue watching the crypto space by creating a regulatory framework around it. Additional trends we have seen, and will continue to see include institutions entering the market. In 2019 Nasdaq and Boerse Stuttgart will start to offer crypto related products and trading platforms. Another trend is the development of Custodial Services, currently BlackRock, Goldman Sachs, and Coinbase are working on products that will allows institutions to have a safe environment to enter the crypto world. Crypto related Exchange traded products are something many companies have tried to offer, but no one has yet gotten approval for yet. We will continue to see a push for crypto ETF’s. The SEC has been going after companies that offered ICO’s and did not follow the established regulatory framework. The SEC has not been looking to stop ICO’s, but to make sure proper regulatory guidelines are followed. Establishment of stable coins. A stable coin is a coin that holds a stable value. The coin gets pegged to another stable asset such as the USD coin offered through Coinbase. This effectively eliminates volatility concerns that many consumers have.

Coinbase is the leading platform through which Americans purchase digital currencies. In 2013 it took only 30 days for customers to have bought and sold more than $1 million dollars’ worth of Bitcoin on their exchange. In January of 2014 overstock.com partnered with Coinbase and began accepting Bitcoins as a form of payment. This marked a milestone in Bitcoin history as Overstock.com became the largest online retailer to accept digital currency as a form of payment. In October of 2017, Charles Schwab reported 10.6 million active brokerage accounts while Coinbase boasted 11.7 million users. Coinbase added approximately 300,000 users in one week alone. In 2017 Coinbase announced that they have successfully received a Bitlicense. This allows Coinbase’s continuing virtual currency business operation in the state of New York. This acts as important validation for Coinbase to operate as the most secure and compliant digital currency exchange. Additionally, in 2017 Coinbase also became second company to receive DFS approval to offer trading of Ethereum and the first to offer Litecoin in New York. DFS also approved Coinbase to offer users in New York access to “Shift Card” a Coinbase linked debit card service. Coinbase is truly a titan in its designated fields. Some of Coinbase’s top competitors include Bitstamp, who competes in the financial and commodity market field, and generates $551.9 million less revenue compared to Coinbase. ItBit who competes in the application software field and generates .7% the revenue of Coinbase. And Bitfinex competes in the transaction services field and generates 1.75% of Coinbase’s revenues. Coinbase has successfully proven that cryptocurrency users are not just a fringe part of the financial universe.

Coinbase currently offers consumers an exchange where users can buy and sell digital currencies, a wallet for users to store their digital currencies, USD coin (a way of moving USD globally), Earn (a program where you are given crypto for learning about crypto), and Pro (advanced cryptocurrency trading). They offer businesses commerce (crypto payment service), custody (crypto custody for institutions) and ventures (a way to raise money for a crypto startup). I believe Coinbase is currently doing a great job with their product offerings. However, I stated earlier that Coinbase offers trading functionality in 32 countries. I recommend Coinbase make a strong push to service additional countries. Coinbase has stated that they are trying to operate in 168 countries. However, after being valued at over $1 billion dollars and recently receiving over 100 million in funding this has not yet happened. Digital currencies are known for being borderless and decentralized in nature, it seems contradictory that there would be restrictions as to where you can trade these currencies.

Coinbase is much more than a company with a witty name. In a short period of time they have become an absolute titan in the crypto world. They continue to successfully expand their product offerings, and are the first exchange most consumers think of when cryptocurrencies are mentioned. I look forward to continued global adoption of the Coinbase exchange in years to come.

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