Bitcoin Case Study

Bitcoin was created by a person under the pseudonym Satoshi Nakamoto in 2008, with the financial crisis in the US as a backdrop. Its essential purpose was to produce an autonomous means of exchange (free from centralized authority), that could be transferred electronically. This mode of transfer is a secure, and verifiable platform, that is unchangeable. This is a description of a domain that has evolved and come to be described as a digital asset, trading on exchanges - much in the way that stocks and bonds are financial assets. It is not fail safe however.

Funding

For Bitcoin, funding has always been problematic, in that it has had trouble gathering enough to support manpower for development. Functionally, there are 5 main sources of funding/support toward that end.

MIT Media Lab’s Digital Currency Initiative - The Digital Currency Initiativeis funded through unrestricted gifts from sponsors such as LinkedIn Co-founder Reid Hoffman, venture capitalist Fred Wilson, API-provider chain, BitFury and Bitmain, as well as the wallet service - Circle, among others.

Blockstream - Founded in 2014 by a collection of Bitcoin developers and venture capitalist Austin Hill, it is headquartered in Montreal, Canada. Some of Blockstream’s developers work on Bitcoin Core specific development almost exclusively. It has grown to be one of the top funded Bitcoin companies - total investments of approximately 76 million from investors including Horizons Ventures, AXA Strategic Ventures, Digital Garage, and as well as LinkedIn co-founder Reid Hoffman.

Chaincode Labs Inc. - Founded in New York in 2014, by Alex Morcos and Suhas Daftuar and is self funded by both. This allows them a great deal of freedom to work on whichever projects and however they like.

Ciphrex - Founded in 2014 by Bitcoin Core developer Eric Lombrozo and his father Enrique Lombrozo, it is based in SanDiego, California. The company is best known for its enterprise-level secure Bitcoin wallet, and CoinSocket, an application development platform.

BTCC - The company is based in Shanghai, China and was founded 2011. It is the oldest and largest Bitcoin company in the world. It serves as a Bitcoin exchange, a mining pool, as well as a wallet service.

Business Activities

Bitcoin’s intended customer was those who wanted to have a new way to pay for services on line thus upending the current financial system. Bitcoin is the most widely accepted of the Cryptocurrencies, but it's consistent shortcoming has been not enough customers holding the currency. As of 2018, however, the Bitocin economy was around $276 billion. It's founder touted it as a means to attract those “who wanted to allow online payments to be sent directly from one party to another without the burdens of going through a financial institution.”\* Despite this, it has failed to fully achieve that original goal.

Landscape

As the original occupant of the Cryptocurrency space, Bitcoin was also the first Cryptocurrency to use scrypt as its hash function instead of SHA-256\*. Peercoin is another notable resident of this domain. It is significant in that it is the first to use a proof-of-work/proof-of-stake hybrid hash function. There have been a number of major trends and innovations over the last 5-10 years. Other Cryptocurrencies include: Ethereum, Litecoin, Bitcoin Cash, among the hundreds of others.

There are 8 core metrics that companies in this domain use to measure success. They are:

* Node decentralization - Bitcoin has large networks of nodes (some estimates are up to 60,000 nodes in the Darknet, 10,000 nodes per CoinBillboard, and 100,000 hidden nodes - this adds to overall security), but is limited in transaction capacity
* Main Developers - Bitcoin attracts the best cryptographers in the world, with clean reputations, all of whom contribute to Bug fixes, Policy sustainability, Brand support and development, Private key security, as well as adding new layers to the system
* Problem solvability - those range from having huge blocks to the possibility to write images to the block chain
* The number of daily crypto transactions - Bitcoin is a leader in this area, but Ethereum - despite being extremely low priced - confirms a relatively substantial amount of payments.
* The number of empty wallets - this metric should constantly increase over time; if the rate of growth is less than 175,000 year as an example, it may not be as active as it pretends to be.
* The network hash rate - this shows the sum of the computer power of all the computers and ASIC-chips connected to the network
* Daily trade volume - Bitcoin has a substantial amount of volume, more exchanges than most, as well as more trading pairs than some
* 24 hour price change - it is not normal if the coin loses 250 - 900 percent in 24 hours; this tends to indicate that the market is heavily centralized, which doesn’t bode well long term for the Cryptocurrency

Results

Bitcoin is currently not performing well given the recent market downturn due to the Corona Virus pandemic. Over the past few years it has been subject to wild price swings, but the trend line is in a positive direction over its 11 year lifespan. It's greatest value has become price appreciation as a result of this.

Recommendations

Bitcoin should diversify and add a block chain for contracts that they can link to certain services for currency transfers that allows another layer of protection embedded in the exchange. This is a distinctive characteristic of Ethereum, a less prominent competitor that is struggling to gain status on the exchanges. Bitcoin although popular has proven it is not yet a reasonable substitute as a storehouse of value in a time of crisis (as opposed to gold), as evidenced by the precipitous price drop that accompanied the historic drop over the past week.

Sources:

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Bitsonline.com

Wikipedia

\*theoutline.com