

Title: NFT Market Diligence

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Hey Apes,

After my previous posts on the NFT marketplace, I have received questions regarding the actual size of the NFT market and what GameStop's marketplace could be used for. Not wanting to disregard the potential application of it being an alternative to the DTC, I am going to specifically focus on GameStop's core business, video games and their relation to NFTs.

****TA:DR:**** Massive TAAAAAAAAMMMMMMM (Total addressable market)! VCs love a girthy TAM (who is Larry, a VC)!

<https://preview.redd.it/iljde3lfs3f81.png?width=720&format;=png&auto;=webp&s;=06c9d9a24621ef358f77975724c0ceb9f3e3e4b3>

****How big is the NFT market? What is the TAM?****

Lots of numbers have been floated over the past several months due to Opensea's rise and MSM covering the sale of NFTs.

Larry Cheng posted market growth from \$85m in 2020 to \$19.6b in 2021.

DappRadar places the market at \$23b in 2021 up from \$76m in 2020.

I have never seen market growth of this size and speed at any time other than maybe the tech bubble in 1999/2000.

[The NFT market reached \$23b in 2021, up from \$76m in 2020.](<https://preview.redd.it/vk3goz9is3f81.png?width=960&format;=png&auto;=webp&s;=8e0eec1511a2958e5726113a1df2d26890e0963e>)

****Now that we know the total NFT market size, lets breakdown two categories that have been exploding, NFT Gaming and NFT Virtual Worlds.****

[Above are most sub-categories within the NFT market. NFT Gaming \(\Axie Infinity\) makes up the largest sub-category.](<https://preview.redd.it/n6zamhujs3f81.png?width=975&format;=png&auto;=webp&s;=a9261cb2629832e7d3ffa840425c3c777181137f>)

****NFT gaming was spearheaded by Axie Infinity and generated \$4.5b in NFT gaming volume in 2021.****

[In Q3 2021, NFT game items accounted for \$2.32 billion in trading volume. That number represents 21.72% of the total NFT trading volumes during the quarter.](<https://preview.redd.it/xpx7mrfns3f81.png?width=966&format;=png&auto;=webp&s;=b777e5ca670b64a8607cf219e9a0189dc0ca5710>)

[Emerging NFT games include: Axie Infinity, Alien Worlds, Farmer World, Splinterlands, and CryptoBlades.](<https://preview.redd.it/yot46udps3f81.png?width=975&format;=png&auto;=webp&s;=2702ed95914fc0718007ad20bef93fdc031a0584>)

<https://preview.redd.it/wscytrtqs3f81.png?width=866&format;=png&auto;=webp&s;=59b09fb854ecfe584a75e46f5cf29f1b434dfbff>

[Above shows us the NFT games were and continue to drive a significant amount of NFT volume.](<https://preview.redd.it/rp3yrhvrs3f81.png?width=967&format;=png&auto;=webp&s;=5be37b318edffbca2dcb237ba6be97d9d263b392>)

****Another subcategory is Virtual Worlds****

In Q3 2021, virtual worlds generated over \$56.37 million in trades, with The Sandbox leading the way. The Sandbox is one of the most important virtual land games in the space. It has confirmed important collaborations with the likes of Atari, The Walking Dead, and most recently, Snoop Dogg.

<https://preview.redd.it/hj66lp0vs3f81.png?width=975&format;=png&auto;=webp&s;=736dbdcfeb1c11de554d4082736f27f9a21075d2>

Hopefully after those colorful graphs, we understand the NFT market a little bit better.

****Now why would GameStop want to get involved in NFTs?*** Because the TAM beyond blockchain gaming could encompass legacy game developers and the growth of blockchain games rivals that of Roblox and others.

****What is the market size of skins in legacy games?***

DMarket estimates the skin market is worth \$40 billion annually. That's almost double the size of the total NFT Market and 9x the size of the NFT gaming subcategory.

<https://preview.redd.it/1d4evucws3f81.png?width=1003&format;=png&auto;=webp&s;=c5b48ac17ac2afa1578c783f31419c474827d8b5>

Above is Fortnite's and Activision's in-game revenue. Combined these two games produce over \$10 billion of in-game purchases, which is roughly 2x what the total NFT Gaming market was in 2021.

This is why GameStop wants to bridge legacy game developers into the play-to-earn and decentralized marketplace they are building. Massive TAM!

You have a massive legacy game developer TAM alongside an extremely fast growing NFT Gaming category. Axie Infinity, withing 3 years of launch, generated \$2b in volume in Q3 2021.

Decentralized play-to-earn games are catching on quickly and taking gamers away from legacy game developers.

****Now that we know more about how the NFT gaming market could evolve, lets look at some competitors to GameStop's NFT Marketplace****

[Opensea has been the largest marketplace by volume. LooksRare launched in January and gain volume quickly.](<https://preview.redd.it/lp8hstkxs3f81.png?width=1111&format;=png&auto;=webp&s;=3f143cae73b66f7a91da4883ae945ebf487e77b2>)

****Competitors include:****

****Opensea****

Charges a 2.5% take rate. Does not allow users to profit in the fees (take rate) that is collected during each transaction.

Acquired Dharma Labs. They did this to offer a wallet service that can bridge fiat to crypto, reducing the barriers to purchase NFTs.

Challenges with insider trading and lack of regulation.

****LooksRare****

Launched this January 2022. Take rate of 2%. Already hit with wash trading challenges. Volume has

spiked, outpacing OpenSea. Volume has been driven by only a handful of users selling between mutually owned wallets to collect LOOKS tokens and share in marketplace profits. This trading isn't indicative of true volume as its coming from wash trading.

Big difference between OpenSea and LooksRare. Anyone that stakes their "LOOKS" tokens shares in the fees the marketplace collects on each transaction. OpenSea does not allow this type of participation and keeps 100% of their take rate.

You earn LOOKS tokens from buying and selling NFTs. You can then stake those tokens to receive a portion of the marketplace fees. To earn tokens, you must sell or buy from an NFT collection that has surpassed 1000 ETH trading volume, or \$2.5m dollars (based upon a \$2.5K price for ETH).

Up until mid-January, OpenSea held 90%+ of the NFT market. LooksRare launched this January and has quickly gained market share due to their unique community profit sharing approach.

Why has LooksRare succeeded in taking initial market-share? My assumption is the community drive structure, allowing users to profit for marketplace fees.

It remains to be determined if users can truly participate in profits in a meaningful way or if we will see several users (with capital) be able to stake a majority of tokens to revenue more of the marketplace profits.

****Steam (Valve)****

This is a legacy centralized marketplace. They allow you to trade CS:GO skins and weapons for Steam Cash or other skins. Steam Cash can be used to buy other PC games on the marketplace but cannot be converted to fiat money or crypto to use outside the marketplace.

Third party sites have been created to offer gamers the ability to sell CS:GO skins/weapons for fiat but lack security and regulation. OpSkins was recently shutdown giving Steam users few options to convert skins/weapons into cold hard cash.

Valve has banned crypto- and NFT-based games on Steam, the biggest PC storefront, inhibiting NFT growth on PC.

****Coinbase****

Partnered with MasterCard to allow consumers the ability to purchase NFTs using fiat instead of buying crypto first then making an NFT purchase.

****FTX****

Crypto exchange that has created an NFT marketplace. Very little has been covered on the marketplace side of their business.

FTX is extremely well capitalized and could be competitor in the NFT market.

****Rarible****

Most of the information from Dune Analytics is from months or years ago. My gut feeling is this marketplace has unfortunately lost substantial market share and is struggling. Any Ape with further insight to this company would be greatly appreciated!

****Putting aside marketplace competitors, let's look at some trends that support NFT gaming and the adoption of NFT gaming within a marketplace.****

Gaming is thriving. There are now 2.7 billion gamers worldwide—a number that will surpass 3 billion in the next three years.

We have seen the evolution of gaming go from physical game sales to free-to-play with a focus on driving in-game revenue, and now to decentralized play-to-earn games.

Whether gamers realize it or not, this is the first time in video game history that gamers, as a collective, have significant power over how gaming evolves. If enough gamers value the play-to-earn structure, legacy game developers will have no choice but to open their centralized games to marketplaces that allow gamers to share in profits.

****This is exactly what RC means by giving power back to the players.****

****Trends:****

Play-to-earn will become a more viable business model.

Bifurcation of game developers.

Consolidation of AAA game developers.

****Play-to-earn will become a more viable business model****

****Why would a legacy game developer consider opening their centralized ecosystem to a decentralized marketplace, allowing gamers to profit off in-game purchases instead of keeping 100% of the profits for themselves?****

Blockchain play-to-earn games are gaining significant traction, taking gamers away from legacy developers. The play-to-earn structure is a core threat to centralized video games.

The graphs below show us the rapid adoption of Blockchain based games.

<https://preview.redd.it/z3upvo63t3f81.png?width=938&format=png&auto=webp&s=a709ca3b5887abdb661d1b9cbc1c82bcf3b7d165>

[It took Roblox 8yrs to achieve 10m MAUs. Axie Infinity reached 5m MAUs in 3 years.](<https://preview.redd.it/hbktg444t3f81.png?width=975&format=png&auto=webp&s=e754166df23b30e11e567b701c908e1d6c4e0e4b>)

<https://preview.redd.it/p61ubsi5t3f81.png?width=975&format=png&auto=webp&s=f9c9bbdc34518b1632544d720c76358058449d61>

[You can see above that CoD was actually losing QAUs until the release of Warzone and the pandemic created the perfect storm increasing users.](<https://preview.redd.it/gpx7k9c6t3f81.png?width=975&format=png&auto=webp&s=5d05cc64271bc9475b0c04e6114598476699e706>)

These graphs show the rapid adoption rate of decentralized blockchain games versus centralized and legacy game developers. Legacy game developers rely on new game releases to draw gamers in but after the gamer has completed the game they move on. Since Axie Infinity offers play-to-earn they can retain gamers for longer and don't have to rely on launches of new games, but rather smaller tweaks.

****Thesis:**** The structure of monetization in video games can drastically affect the end-user experience of the video game, thus supporting the emergence of play-to-earn.

Currently, legacy developers ask this question, "how can we make the most money from the player?" If we zoom out from this perspective, we'll be able to discover new modes of monetization that grow game communities and de-risk the game development process.

Relying solely on monetization of microtransactions or in game purchases is a local maxima which erodes trust of gamers over time.

The current game development structure is misaligned. Where two parties interact yet, only one is monetarily awarded even if the other party spends hours playing and generating content. Building a game with Play to Earn in mind means bringing in the larger community and allowing them to benefit from the game's growth. ****It is incentive alignment.****

Allowing players to monetize their value, through NFTs and GameStop's NFT marketplace, can add another dimension and layer to the game, and a degree of motivation. This is especially true when allowing for real world monetization through traditional fiat or crypto.

In a recent survey conducted by market research firm [Interpret](<https://www.linkedin.com/company/interpret/>), 57% of gamers indicated that they are interested in earning NFTs from playing games.

According to the results, incorporating NFTs into games could also be a driver of retention. Roughly 45% of respondents indicated that it would increase their current engagement levels with games, while just 13% cited that it would negatively impact playing habits.

For now, it is worth noting that play-to-earn games do not inherently and completely eliminate the centralization found in games. They still require the authority of the publisher to define, issue and constrain the asset that eventually is traded as an NFT.

****Rather, the greatest promise of play-to-earn games is in their potential to decentralize marketplaces for the creation, ownership and exchange of digital assets, as well as the potential created when these marketplaces are connected to the traditional economy and fiat currencies—allowing players to transfer their digital time, effort and earnings into disposable income in the physical world.****

****Bifurcation of game developers****

****Thesis:**** We will see the rise of independent game developers through software engines and marketplaces.

****Why?***** Software engines such as Epic, Unity, and Roblox low the barriers to entry for individuals to create profit games at smaller scale.

****Why will independent game developers emerge?***** Software engine platforms such as Epic Games, Unity, and Roblox reduce necessary startup expenses by providing infrastructure to develop games efficiently. Whereas before, game developers would spend capital and time building from the ground up, these software engines offering pre-made content, virtual worlds, landscapes, animations, light & materials rendering, effects, and gameplay interactivity reduce expenses and expedite the development process.

Reducing startup costs lower the barriers to entry and incentivizes independent game developers.

Roblox, Epic, and Unity are the three largest software engine platforms for independent game developers. Roblox is the only closed ecosystem as Epic and Unity developed games can list on external marketplaces.

****Consolidation of AAA Game Developers****

****Thesis:**** Microsoft, Sony, Ubisoft, Take-Two, EA, and others rely heavily on large game releases. Consolidation de-risks this strategy and allows them to realize operating expense synergies.

****Why:**** By consolidating game developers, you can achieve better economies of scale and reduce risk from the reliance on annual major game releases since you now have many brands releasing multiple titles.

****Microsoft acquired Activision/Blizzard****

Acquired for \$69bn (hahaha....69)

Why: We all know why at this point.

****Take Two acquired Zynga****

Acquired for \$12.7bn

Why: This brings together Take-Two's leading console and PC franchises such as GTA and Red Dead Redemption with Zynga's mobile publishing platform.

****Savvy Gaming Group acquires ESL Gaming****

Acquired for \$1.1bn

Why: The newly minted ESL FACEIT Group is positioned to be the leading platform for competitive gaming, bringing together games, users, and partners with a truly differentiated offering.

****EA acquired Glu Mobile****

Acquired for \$2.4bn

Why: Glu Mobile boosts EA's strategic plans to grow their mobile gaming business.

<https://preview.redd.it/gyy9y73ct3f81.png?width=1195&format=png&auto=webp&s=32fe017c472eeb6cb972caed06856aac8da6fc0>

****Thesis**** My assumption is GameStop will be developing and releasing their own blockchain based games that allow gamers to transact through their own NFT Marketplace.

****How does GameStop position itself to take advantage of the trends discussed above?****

****Play-to-earn:**** GameStop is actively building a blockchain game team. Recent job posting support this assumption, Director Product Marketing NFT Platform, Sr. Engineer NFT Platform, and Head of Web3 Gaming. The rise of Axie Infinity supports the existence of this category and its threat to AAA developers. The rise of low barrier software engines (Epic, Unity) could allow GameStop to develop blockchain based games capital efficiently.

****Bifurcation of game developers:**** GameStop's NFT marketplace will sit in the middle of AAA developers and independent developers, offering everyone a trusted marketplace to sell blockchain games and in-game-purchases.

****Consolidation of AAA Game Developers:**** GameStop's Microsoft partnership is unique and will allow them to support Microsoft's video game ambitions. By launching an NFT marketplace in conjunction with a Web3 gaming platform it de-risks GameStop since they will not be heavily reliant on Microsoft.

****Side note:**** By GameStop expanding into refurbished iPhones, it allows them to tangentially profit off the mobile gaming category while padding their gross margins. Every major AAA game developer has a mobile platform, Take-Two & Zynga, EA & Glu Mobile.

****Conclusion:**** Gamers are moving away from centralized restrictive legacy game developers to a decentralized play-to-earn structure allowing them to profit off in-game purchases. Legacy game developers (Activision-Blizzard, EA, Take-Two Ubisoft) will have to pivot quickly to keep gamers interested in their products. I believe GameStop's NFT Marketplace is the bridge between legacy game developers and the decentralized gaming world.

GameStop's marketplace gives legacy game developers the best of both worlds. Game developers can focus on producing high quality game content while retaining gamer interest and profiting in the emerging decentralized blockchain gaming environment.

****NFT Marketplace Data****

<https://preview.redd.it/oetnxh2ft3f81.png?width=975&format;=png&auto;=webp&s;=69f70fa8364efa121ab2178d14bad80a874be0d5>