

Title: GameStop and Blockchain / NFTs

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Body:

I believe that a large number of people are looking at GameStop's ambitions to leverage blockchain technology in a completely wrong way. While I've read some interesting theories in regards to GS and NFT's, most of the attention has been drawn to the Crypto dividend / NFT dividend narrative, which is not only highly speculative but would also imply using a lot of resources for something that would not add direct value to consumers (or at least consumers that are not shareholders) on the long run. The truth is that Distributed Ledger Technology (e.g. Blockchain) and Gaming are a match made in heaven that could and most likely will optimize the experience for video gamers and provide companies that integrate DLT into gaming with insanely profitable new revenue streams (*aka tendies).*

What first encouraged me to put together some information on this topic was this Tweet from early bitcoin investor Ran Neuner saying: *“(GAMING) NFT's will drive us into a full bull again”*.*

[*<https://twitter.com/cryptomanran/status/1415568318631714819>](<https://twitter.com/cryptomanran/status/1415568318631714819>)

Regardless of what people think of Ran Neuner, this tweet immediately got me thinking: "NFT's? Gaming? Bull? I've heard this before...". When I read some information on how the free-to-play video game model is drastically growing it was easy to connect the dots and understand where the industry is going and what opportunities it will provide to GameStop.

Everything indicates towards the fact that in the near future video game companies will completely erase their traditional revenue model and instead offer the overwhelming majority of games as free-to-play and fully focus on monetizing in-game transactions by offering consumers a much higher level of gameplay / character customization as well as complete ownership of digital items they purchased in-game. This article provides some insights on how free-to-play games are generating the majority of revenue in the gaming industry and how blockchain is the perfect solution to get the most out of this approach: <https://www.toptal.com/insights/future-of-work/blockchain-game>

“The success of Epic Games’ Fortnite could be a premonition of blockchain’s success with gaming. Fortnite earned \$2.4 billion in 2018, making it the highest-grossing game in history. Free-to-play games in general made up 80% of all global gaming revenue in 2018; on consoles, free-to-play titles grossed 458% more in 2018 than in 2017.” \- Fortnite is a huge example for the success of this new model and demonstrates that consumers obsess over the ability to customise their in-game experience by owning digital items or what I'd even call digital assets in this context. Everyone who plays video games could likely come up with hundreds of potential examples e.g. game characters, weapons, vehicles, sports kits and virtual sports players (more on this below), in-game digital currencies, virtual houses (think of GTA and other RPG's) etc. that could be traded in NFT format.

The same article proceeds with naming some solid arguments on why Blockchain is an ideal solution for this approach to gaming:

“Granting immutable ownership of in-game items, solving item theft due to hacking and the sale of fake in-game assets.”

“Tying assets to players instead of games, thereby protecting time/money investments players have made, irrespective of developer decisions.”

*“Protecting players from undesirable actions on the part of creators; players can take the wheel, extending game longevity and encouraging user content. (Virtual reality game**

*[*Decentraland*](<https://blockonomi.com/decentraland-guide/>) *is a promising example.)**

“Restoring trust between game developers and distributors by recording sales on a blockchain.”

- * *Creating a decentralized distribution network for games.*
- * *Creating more realistic economic systems within games.*
- * *Shifting the definition of a successful game away from revenue and toward in-game currency value, thereby refocusing game development efforts to benefit players.*
- * *Incentivizing players by offering dividends and granting them a vote in development processes.*
- * *Fixing the high-cost, low-revenue problems of cloud gaming initiatives (like Sony's* [*PS Now*](https://www.playstation.com/en-us/explore/playstation-now/?emcid=pa-no-97934\$\$\$&_rl=1240604&gclid=Cj0KCQjw2IrmBRCJARIsAJZDdxB6dahx7VV8uQurlUo_z6jJg2EXFmzJi3RR5OxrWOpnce2EyG5fpgaAt30EALw_wcB&gclidsrc=aw.ds&kcn=search&semid=43700013706577995&semid=xconfid=r3w9h1xzi*)) by distributing the server over a blockchain network.*
- * *Encouraging game development competition outside of the monopolistic console and game-publishing industries."*

This article from a few years ago also provides a good analysis of the compatibility between Blockchain and video games, again referencing Fortnite as a successful example of free-to-play gaming where NFT's would add immense value: https://cms.law/en/mex/publication/how-blockchain-will-revolutionise-the-gaming-industry

A thought of the author that I found very interesting: "For example, a tournament winner could sell or auction off their game-winning tool. Just imagine, if Bugha, winner of the Fortnite World Cup 2019 solo event, decided to sell one of his in-game assets such as his pickaxe. With blockchain, you can trace the history of each in-game asset – and owning Bugha's pickaxe would be like owning a piece of historic sports memorabilia." As a matter of fact, people would likely spend tens of thousands (or more) for similar items despite them being purely digital. This should provide some perspective on the insane potential value of the Gaming NFT market.

Going back to the rise in free-to-play games: what got me quite jacked was learning that Pro Evolution Soccer is being renamed to eFootball and offered to consumers as free-to-play just like Epic Games did with Fortnite (article: https://www.videogameschronicle.com/news/konami-announces-efootball-the-free-to-play-successor-to-pes/). I found it even more jacking that some rumours suggest that main competitor FIFA will potentially adopt the same model next year (https://screenrant.com/ea-sports-games-fifa-22-free-play/)

This might not mean much to some of you so please allow me to explain why this fits precisely into the Gaming NFT narrative:

\- Virtual football games (PES and particularly FIFA) gain the vast majority of traction and revenue from separate in-game modes. In Fifa's case the mode is called "Ultimate Team"

\- Ultimate Team consists in trading football cards specific to each player on a digital in-game marketplace in order to build your dream squad. The Ultimate Team market operates similar to the stock market as some players will suddenly gain immense value, others' value can crash and gamers invest a lot of time and effort into trading the same way you'd trade stocks or crypto.

\- Some of the problems with the FIFA UT market is that it's extremely hard to trace the movement between buyers and sellers of certain cards (especially super rare, expensive cards). Recent scandals included black market sales of highly rare cards in exchange for thousands of dollars in FIAT.

\- Players have expressed disappointment before due to lack of ownership and uniqueness of your club and players as all the items you own are...what is the word...fungible?

I will not waste any characters explaining why Blockchain is a good fit as I'm confident you guys are all seeing the potential here. And for those who still don't, let me share some figures on this one specific individual example I'm making:

\- In the fiscal year 2021 (March 2020 to April 2021), gaming publisher Electronic Arts generated **approximately 1.62 billion U.S. dollars** in revenues from extra content sales for the Ultimate Team

mode associated with its sports gaming franchises (Statista, 2021)

\- Here is EA's net revenue from Ultimate Team game modes as of 2015 (Sportbible, 2020):

- * 2015: \$587 million
- * 2016: \$660 million
- * 2017: \$775 million
- * 2018: \$1.18 billion
- * 2019: \$1.37 billion
- * 2020: \$1.49 billion

One objection people might have is that merging Blockchain technology with Gaming might still be nothing more than an idea and far from reality. However, the game "Cryptokitties" is an excellent example of a Proof of Concept to demonstrate that the two go very well together and that this idea is realizable: <https://venturebeat.com/2021/05/30/blockchain-and-nfts-are-turning-gamers-into-investors/>

The game allows users to breed their own "cryptokitties", which are owned and traded in NFT format on the Blockchain. I've seen people naming this example before and many laugh it off stating that this actually takes away credibility from the potential of blockchain in gaming. In reality, the game has successfully run since 2017, demonstrating that NFT's and gaming have a history of compatibility rather than being a mere idea. Additionally, 30.000\$ dollars in transactions still occur on the game DAILY to this day and a particular crypto kitty was sold for 600ETH (172K USD back in 2018, a lot more now).

Back to GameStop: We can only speculate on how the company will exactly capitalize on this opportunity, however, gaining some understanding on where the NFT Gaming market is heading definitely helps with understanding WHY GameStop is making the hugely strategic move of building blockchain capabilities within the organization. I liked the theory that was going around in regards to GS making digital games tradable just like physical games, this would however contradict the growing free-to-play strategy that gaming companies are deploying. I personally believe that GameStop will act as a middle-man / marketplace for an infinite number of tradable digital items and assets that gamers will buy and sell to enrich their gaming experience. I also believe that the speed, quantity and ease of trading and potentially producing NFT items once this area is more mature will aid GameStop with creating new routes to market that will increase their revenue in ways that some might not even imagine. In an ideal world we'll even see GameStop original NFT items (again; skins, characters, weapons, cars etc.) being sold by GS exclusively, both digitally and even by providing an in-store experience where people queue up overnight for an exclusive Fortnite skin release. Anyway, enough speculation.

Finally, I'd like to share a brief reminder on how impactful a successful adoption of DLT would be for GameStop from an investor perspective. I have experience selling enterprise software platforms with blockchain / smart contract capabilities and guarantee that nothing is 'sexier' right now than a well-defined, successful use case for Blockchain technology. I've been in sales for a while and nothing attracted more buyer attention than anything Blockchain related as everyone wants to invest into this emerging technology but still looking for tangible opportunities that go beyond theorizing / speculating. Below you'll find an insightful graph that shows the growing investments into Blockchain technology (unfortunately I could not find anything more recent):

<https://preview.redd.it/6fjwlpqy8le71.png?width=1222&format;=png&auto;=webp&s;=e3cc422e916c4296ffdbe5b20d6f93372c9c729f>

If GameStop was one of the companies, or maybe THE company to truly bring the Blockchain - Gaming use case to life and overall contribute to Blockchain mass adoption, it'll attract attention of influential investors across the whole world. Not to mention the publicity it would get from the Crypto community, should GameStop's Gaming NFT's indeed aid the crypto market to some extent.

If anyone made it this far, thanks for reading and I'd like to hear your thoughts in the comments. I think some good old fashioned industry analysis is very healthy from time to time, especially to take a breather

from NFT dividend speculation, bastille day hype, overanalysing tweets, MOASS impatience (you're telling me you've been holding your 0.8 shares for an entire month now and you're still not a billionaire??? This world is sick...) and a lot of other narratives that rarely have legs to stand on. Sometimes you can't see the forest due to all the trees being in the way - take a step back, look at the big picture and enjoy holding shares of a company that will potentially revolutionize an entire industry!

TLDR:

The potential impact of GME working with Blockchain technology is largely overlooked or misinterpreted. The focus should not be on NFT dividend but rather the video game industry's shift to free-to-play models and the immense revenue being generated purely from in-game purchases of digital items. Blockchain and more specifically NFT's are the perfect solution to optimize this revenue model to the fullest while providing players with a completely innovative and personalized experience. GameStop clearly recognizes this potential and could be a pioneer for a new generation of gaming and digital item trading. Gaming is seen as the most likely route to Blockchain mass adoption. GameStop deploying the right use cases = huge publicity in crypto and DLT world + huge interest from emerging technology investors + gigantic new revenue streams through innovative means. This could and will be the MOTHER OF ALL DIGITAL TRANSFORMATIONS.