Points programs are the new meta in crypto.

Points were pioneered by the NFT marketplace Blur and used by major projects from Friend.tech to Eigenlayer. In a nutshell, points are loyalty scores designed to encourage usage, usually stored off-chain. Points are non-transferrable and are issued entirely at the discretion of the project. On a first glance, they seem similar to traditional loyalty schemes from airline miles to retailer loyalty points.

“What is the big deal about points, then?”, some might ask. Idealists might criticize how “centralized” they are and lament that this is a step back from tokens. This critique is valid if points are the final stage of an incentive program.

However, points are often just used as a stepping stone towards a token launch, like in the case of Blur or more recently, Jito, Solana’s leading liquid staking protocol. It is in this case that points become a powerful mechanism design primitive. Points can be thought of as non-binding promises for future tokens.

It is important to note that points are generally issued by another entity than a subsequent token would be. The entity issuing the token has no obligation to follow the points accounting exactly. Issuing points before launching a token has a range of benefits and has become increasingly popular. We outline the major benefits of points programs before surveying the most common mechanisms, and ending with recommendations.

The benefits of launching points before tokens

There are 3 key benefits of launching points programs before tokens:

1. Bootstrapping adoption
2. Flexibility & experimentation
3. Speed

Bootstrapping adoption

Flexibility & experimentation

Speed

Bootstrapping adoption

Fundamentally, points are issued for the same reasons that airdrops and token reward campaigns (e.g. liquidity mining or staking) have become dominant strategies in crypto: They help bootstrap adoption and a decentralized community. Mechanisms and learnings from various token reward campaigns can be applied directly to the design space of points programs.

Even though projects usually don’t explicitly promise to later award tokens to holders of points, there is an implicit expectation from the crypto community. Once a points program is launched, the community assigns a higher probability to an airdrop and also gets assurances on what actions will be rewarded. A sense of urgency tends to set in once points are live.

Ultimately, it is still the ownership effect and liquidity of tokens that create strong adoption incentives. If a later token launch wasn’t expected, points would indeed be equivalent to airline miles. They might still retain some of their function as an incentive, but would not nearly be as strong. In the case without a later token launch, points also do not help to distribute ownership and governance to a community.

We’ve seen successful points programs create large shifts in user behavior in the crypto space. For example, Blur’s cometic rise to overtake Open Sea as the leading NFT marketplace started with their points program. Blur still dominates NFT trading volumes with 75+% of market share. Margin.fi introduced points in July of 2023, which caused its TVL to grow 7x within 2 months - in the depths of the Solana bear market.

Especially for projects in very competitive spaces, the introduction of a points program might provide a critical advantage. For instance, the wallet space is not just competitive, but users are also notoriously sticky. While the jury is still out on the ultimate impact, the wallets Rainbow and Rabby both launched points programs that could enable them to convert a substantial number of users from the much more entrenched Metamask.

Flexibility & experimentation

A major advantage over token-based reward programs is that there is much more flexibility with points. Points may raise expectations for a token launch, but are not an explicit commitment to launch a token. The project retains all the flexibility on if and when a token will be launched but already gets the benefits of boosting adoption. Once tokens are distributed, it is extremely hard to create more of them or replace them with another token altogether.

Points, on the other hand, are entirely controlled by the project and could be changed at any time. This includes revoking past points (even though less common), changing the issuance rate, and modifying the actions which are rewarded. The ability to experiment is a key benefit of points: They function as a “test run” for later token incentive programs that can more easily be iterated on. The project can try out different incentives and see how users react (including trying to game the system). The data generated from user behavior is extremely valuable for later translating points into token rewards. Additionally, it is also easier to include off-chain actions into the calculations of points.

Speed

Finally, a substantial advantage of points are the speed at which they can be deployed. Launching a token is a complicated endeavor and requires the following processes:

1. Token design and engineering
2. Implementation and product integration
3. Supply considerations and modeling
4. Distribution strategy
5. Liquidity management
6. Legal structuring and compliance

Token design and engineering

Implementation and product integration

Supply considerations and modeling

Distribution strategy

Liquidity management

Legal structuring and compliance

Points only require a much simpler design process and product integration, without any on-chain elements. Most of the elements required for designing a points program are necessary for token reward programs and airdrops anyway, so there is no duplication of work. Points are legally unproblematic since they are non-transferable and don’t have any explicit value tied to them. Especially since incentives and design can be adjusted over time, there isn’t as much pressure for getting everything right from the get go. Whereas planning and executing a well-designed token launch takes 6 months to a year, a points program can be launched in a single month. This allows a project to kickstart adoption incentives while working on a more lengthy token launch process in parallel.

Mechanism design for points

In the last few months, many projects have launched points with a variety of different mechanisms. Although it is still early days, we can observe which mechanisms are most commonly used and seem to have the greatest impact. We cluster these mechanisms into three major categories:

1. Usage:

Incentives for using the product or protocol, designed for the specific usage patterns the project wants to incentivise.

1. Timing:

Incentives for using the product or protocol sooner rather than later. This class of incentives is especially impactful for getting to a critical mass of usage.

1. Virality:

Incentives designed to onboard more users and stimulate organic growth.These mechanisms can facilitate a go-to-market driven by virality.

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The table below summarizes the three most common mechanisms for each class of incentives.

We will now go through each category and describe the leading mechanisms in more detail.

Usage mechanisms

Incentivising usage should be at the center of every points program. We can distinguish between incentives for core usage patterns, secondary usage patterns, and loyalty. Core usage patterns are the way the largest user group most frequently interacts, secondary usage patterns are everything else.

Core usage patterns

Most points should be allocated to users engaging in the core usage patterns

. These patterns are different from case to case, but often fall into two categories: TVL (total value locked) or volume.

Usage patterns based on TVL

apply for a range of DeFi and L2 ecosystems. Examples include Swell, EtherFi, KelpDAO, Eigenlayer, Manta, and Gravita. The base mechanisms for TVL-based points take into account two factors - the amount of capital (often measured in major assets like ETH, BTC, or SOL) and the length of time at which it was deployed. For example, Eigenlayer gives out 1 point per ETH locked per hour (see formula below

From Eigenlayer documentation

Another frequent core usage pattern is volume

. This applies to bridges like Orbiter or trading platforms like Drift and Zeta. Usually, volume is measured in USD equivalents, since there tends to be a much wider range of assets used in these applications as opposed to TVL-based mechanisms. Sometimes, different types of volume are distinguished, e.g. Taker (vs. Maker) volume for trading platforms or certain types of routes or assets for bridges.

Projects should consider how these mechanisms could be gamed to farm points without genuine usage, and adjust them to disqualify users trying to take advantage. For example, Blur changed their most recent reward program to prioritize NFT listings near the floor, and EtherFi disqualifies users who unstake and restake their deposits to get extra points in their recent reward week. Izumi Finance doesn't count the ETH/WETH pair for their points program rewarding DEX volume since this has been the most used pair by airdrop framers. These examples also illustrate how points allow developers to detect the gaming of their incentives and adapt accordingly.

Secondary usage patterns

In addition to core usage patterns, there may also be secondary usage patterns

that help the protocol succeed. For example, providing liquidity in trading applications of all kinds Parcl (real-estate based perpetuals) and Tensor (NFT trading platform) both award points to liquidity providers. Several liquid (re)staking protocols have incentivized the use of their tokens in DeFi, e.g. the recent collaboration of Swell and Etherfi for a liquidity pool on Curve.

Loyalty scores

Loyalty scores

are another mechanism to incentivize (exclusive) usage. The mechanism was pioneered by Blur, punishing their users for listing NFTs on other platforms by lowering their chances in their probabilistic airdrop. It is now also used by Tensor, which applies the loyalty score as a factor for points earned through core usage patterns. Loyalty scores usually work as a percentage of incentivised actions taken on the issuing protocol vs. their competitors. 100% loyalty means only the issuing protocol was used. Applying a loyalty score as a factor to points earned seems like a versatile mechanism that could potentially be used by many other protocols than NFT trading platforms.

Timing mechanisms

Early usage that helps getting to critical mass is much more valuable than incremental usage at scale. That's why timing mechanisms that incentivize early participation are another popular ingredient for points programs. Usually, timing mechanisms are implemented as boosts or multipliers on usage mechanisms.

The following timing-based mechanisms have been used in prominent points programs:

- Boosted periods
- User-triggered boosts
- Seasons

Boosted periods

User-triggered boosts

Seasons

Boosted periods

are periods in which users earn more points for usage. These can either be specific time periods or based on milestones. Examples for time-based mechanisms include Zeta offering additional points for a week in December and EtherFi's similar campaign in February. Milestone-based mechanisms are usually tied to the respective core usage pattern (e.g. TVL or volume). For example, Swell offered 3x the amount of points for deposits in their pre-launch vaults before 10k stETH had been reached.

Pre-launch vaults

are ways of bootstrapping activity (especially TVL) prior to launch and often include more point incentives. Examples include Swell and Diva, both of which used Enzyme for pre-launch vaults.

User-triggered boosts

are multipliers on points where the timing is not determined by the project, but the user. This mechanism is usually implemented through NFTs, which give their holders a boost on points earned. The multiplier is either constant for the holder of the NFT, such as Tensor's Tensorians or Parcl's homeowners association, or they need to be activated by burning them like Zeta's Cards (in which the boost only lasts for a certain time).

Seasons

are a way of structuring points programs over time. Each season typically lasts for a few months and offers different rewards. This is a great mechanism for projects to experiment with different incentives and also has the advantage of offering a marketing moment with each new season. Like many other points mechanisms, this was pioneered by Blur. Seasons are also a great way to showcase new integrations or product features. For example, Orbiter has offered increased points for bridging to and from many layer 2 networks that they have successively integrated.

Virality mechanisms

The final category are virality mechanisms. These mechanisms leverage points in order to grow the product organically by incentivizing users to onboard new users.

We can distinguish between the following three mechanisms:

1. Referrals & invites
2. Social engagement
3. Rewards for on-chain footprint

Referrals & invites

Social engagement

Rewards for on-chain footprint

Referrals

are the most common virality mechanism for points programs. Most of the examples previously mentioned have a referral program, including Swell, EtherFi, MarginFi, Parcl, Zeta, and Tensor. Referrals can either be structured to receive a fixed amount of points per user or a variable amount based on the usage of the referred user. The latter has the benefit of being less gamable and incentivising the referrals of active

users. For example, MarginFi users earn 10% of the points of users they refer. Sometimes, there is also a nominal amount of points granted to the referred user for signing up with a referral code.

There has also been experimentation with mechanisms that give out referrals points to a team of users connected by chains of referrals. For example, Blast, Manta, and Puffer all used variations of team-based referrals.

Whereas referrals are optional, invite codes

are mandatory in order to use a product or protocol. Friend.tech was only accessible through invites in the beginning, and invite codes were also used by Blast and Manta. While the mechanisms basically work the same way, invite codes create more exclusivity (but might obstruct growth with non crypto-native users).

Social engagement

mechanisms incentivise (or require) users to interact with their social media accounts (typically on X or Discord). The most common setup is requiring a connection with an X account to participate in a points program (automatically following the project's account). For example, Manta and Puffer both require linking X accounts for their respective programs. Besides boosting the follower count of the project in question, this also works as a defense against sybil attacks (the same user participating with multiple wallets). However, there is a downside since many crypto users don't like to associate their wallets to their social profiles.

Sometimes, this mechanism is also executed via third parties, such asZealy or Galxe. These platforms offer "quests" on behalf of projects where users can earn points. Some of these quests typically include following the project's X account, joining the Discord, or even posting about the project on X.

Finally, there are mechanisms that give points to users based on their on-chain footprint

. This initial allocation of points incentivises users active on the relevant blockchain network to check out the project to claim their points. Depending on the use case, this includes token holdings and/or usage of specific protocols. These mechanisms increase virality since they lead to awareness and mouth-to-mouth propaganda with users within the broader web3 ecosystem or the targeted applications.

An attractive target is the usage of competitive protocols. BothRainbow and Rabby award points to Metamask users who have used the in-wallet swap feature. This subset of mechanisms could be called "vampire points

" due to the similarity with vampire attacks in an airdrop (like in the originalSushiSwap vampire attack).

Recommendations for designing points programs

After having surveyed the most common mechanisms for points programs, we can now highlight emerging best practices and failure modes. Even though it is still very early

, we can see the first signs of what seems to work. Note that these are primarily based on our subjective assessment since there isn't enough data yet to measure the impact of specific mechanisms quantitatively.

Emerging best practices

The following seem to be emerging as best practices:

1. The heart of the reward mechanisms should reflect the core product or protocol logic, e.g. TVL or volume, in a way that cannot easily be gamed.
2. Incentivising early adoption is key and offering a multiplier on points earned either for a certain time period or based on certain milestones seems like a winning mechanism.
3. Seasons are a great way to structure points programs, making explicit space for experimentation and providing several marketing impulses.
4. Referrals are a key tool to enable viral growth. Offering 10% of points of the referred person is a robust mechanism to set the right incentives.
5. Showing total points issued over time is emerging as a best practice.
6. Clarity in communication is extremely important.

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When it comes to clarity in communication, it is important to add a disclaimer that points come with no obligation and that the project reserves the right to change them unilaterally. Showing a total of points issued also provides clarity to users on where they stand while not requiring the project to pre-commit on the proportions upfront. Similarly, including a dashboard with points earned by a specific user adds transparency. Adding a leaderboard can motivate users to earn more points.

Depending on the project, other mechanisms can also make sense, of course. However, the best practices above are the ones that we think have the highest impact on actual usage.

Don’t confuse your users: failure modes of points

There are also some failure modes of points programs. The most important one is confusing or overwhelming users. If too many and too complex mechanisms are used, there is a risk that users will not participate because they don’t understand what is going on. Manta’s campaign could potentially have crossed that barrier with just doing too much: Users earned points for bridging ETH, which could be used to open boxes that held random NFTs. These NFTs, in turn, could be combined into new NFTs. Next to the bridging rewards campaign, there was a range of other rewards including for events, treasure hunts, more NFTs, and much more. Instead of applying all possible mechanisms, it seems better to focus on the few mechanisms that will move the needle the most.

The consideration of focusing on impact and simplicity applies not just to points programs as a whole, but mechanisms within them. For example, Blast’s elaborate invite/referral mechanism that features multiple levels of referrals (with different bonuses based on the number of referred users) and referral-teams was criticized for being a pyramid scheme.

Finally, potentially unclear UX patterns like requiring users to explicitly opt-in to points systems (as opposed to automatically accruing points by using the protocol) should be avoided. Both Parcl and Rainbow wallet require users opting into points programs. Users who uses these protocols without opting in will likely be frustrated when they don’t qualify for an eventual airdrop because of that. Ultimately, increasing adoption and creating loyalty with users is the point of points. This should be taken into consideration design and UX decisions throughout a points program.

Final thoughts

We believe points are another crucial step in the evolution of incentives for bootstrapping protocol usage. If an airdrop follows suit, points help distribute protocol ownership and governance early on. Points unbundle retroactive and future usage incentives from potential airdrops and provide more flexibility and faster execution speed. When designing points programs, creating incentives around core usage patterns, encouraging organic growth, and clarity in communication are crucial.

In the Web3 attention economy, points allow to gamify adoption in creative ways and on multiple dimensions. Whether points will become an industry standard or just an intermediate stepping stone towards even more sophisticated mechanisms remains to be seen. The space keeps moving fast, e.g. whales market creating permissionless liquidity for points could impact the landscape significantly. Given the advantages of points programs described above, it seems likely that they will have staying power at least as one of many possible tools in the mechanism design toolkit of Web3.