

Last season as a community we had a realization that the grants we've been distributing from the community governance fund have had somewhat disappointing results in terms of user stickiness and TVL.

The goal of this thread is to examine why this is and how we can improve on this for next season. Specifically, thinking about competitions as a better use of grant funds.

Background:

Just as a reminder, the optimism flywheel looks something like this:

1. Make the Optimism network a valuable place for users to transact
2. Create sequencer revenue from those transactions
3. Apply this sequencer revenue back towards [a] in the form of RPGF

It's important to know that the value generated in [b] is directly tied to the value that users are getting from their transactions which inherently comes from the value Optimism itself provides. In math form that looks like this:

Sequencer Revenue = Value of Transactions to Users = f(value of optimism network)

Grants:

But so far, the majority of grants have gone towards liquidity incentives on DeFi protocols.

How do these juicy yields affect the flywheel?

The good:

- Brand new users may come for the yield but stay because of the ecosystem
- Fledgling protocols can get their first initial bumps of users and liquidity to become viable on their own

The bad:

- As we saw in the analytics, the majority of these grants are really just transfer payments from the OP Foundation to users

While there's nothing wrong with free money, these kind of incentives are not actually accomplishing our goal of getting the flywheel going. In fact, liquidity incentives are creating a short-circuit in the flywheel by directly giving value to users [b] without boosting the value of Optimism itself [a].

And our equation for B becomes:

Sequencer Revenue = Value of Transactions to User = f(value of optimism network, value of liquidity incentives to users)

Yes, the value of transactions to users does go up in the short term but this value isn't coming from the ecosystem itself and will dry up as soon as the incentives do. This appears to be exactly how the results are playing out in the data.

So what can we do?

I believe that part of course correcting is to shift grant focus to make SURE that we are target [a], the value of the optimism network, directly with grant funds.

One effective way that I believe we can do that is competitions

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Competitions have long been used as a way to leverage dollars to encourage innovation in a space. They are especially useful when the answer to the problem is not known

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Can you predict what the most popular app on Optimism will be 3 years from now? We might have some ideas, but as of now we really don't know what the killer app of the future will be.

Well-crafted competitions allow us to move closer to the killer apps of the future as well as increase the utility and usage of the apps we currently have on Optimism.

Examples of competitions to draw from:

- [DARPA \(autonomous cars, robotics challenge, launch challenge\)](#)
- [X-Prize Foundation](#)
- [ETHGlobal Hackathons](#)

Value

EthGlobal had a recent hackathon in Bogota with a total prize pool of ~\$500k USD which included all prizes contributed by technology sponsors. That hackathon brought together 900 hackers and 212 project submissions.

With the funds from that one liquidity incentive grant, we could have funded 10 massive hackathons.

By scaling back the prize pool to \$100k, we could have used those funds to run 50 individual hackathons. That's one hackathon with a juicy \$100K prize pool for every single weekend of an entire year.

Extrapolating numbers, that could have brought 9,000 developers and 2,000+ new projects to Optimism.

Other Competitions

- Hackathons
- Public goods
- ZK-dapps
- Bedrock Hacks
- DeFi
- Tooling
- NFT
- Public goods
- ZK-dapps
- Bedrock Hacks
- DeFi
- Tooling
- NFT
- Social/awareness
- Most viral optimism-themed TikTok
- Meme competitions
- Best Optimism Rap competition
- Most viral optimism-themed TikTok
- Meme competitions
- Best Optimism Rap competition
- Business Dev
- Business plan competition
- "Build a business" competition
- Cross between hackathon & incubator
- Cross between hackathon & incubator
- Interactive NFT competition
- Business plan competition

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- Cross between hackathon & incubator
- Interactive NFT competition
- Education/onboarding
- Best educational “what is optimism” video
- Best Optimism coding tutorial
- Best “getting started with optimism” tutorial
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- Best Optimism coding tutorial
- Best “getting started with optimism” tutorial

All of these competitions can be directly tailored to directly increase the value of the optimism ecosystem for the long term, accelerating our flywheel and moving us closer to the optimistic vision.

Conclusion

If you made it this far, thank you for taking the time to read. I'll leave you with a few open questions that might be useful topics of discussion:

- How would a community-run competition work?
- Could anyone apply to create and host a competition?
- Would these organizers be compensated for their work?
- How do we prevent the gaming of the system (i.e. hosting a sham competition and pocketing the prizes)?
- What kinds of competitions would you most like to see?

Stay Optimistic,

-Michael