Our Proposal

As a member of the Uniswap DAO and co-founder of OpenBlock Labs, I am submitting a proposal to build an objective-based incentive distribution framework to bootstrap organic trading volume on new venues.

Due to the recent license expiration, there have been a handful of proposals on bridging Uniswap V3 to various chains. Since the burden of bootstrapping these pools falls on early LPs, it is important that Uniswap quantifies this cost and distributes incentives appropriately. In the past, Uniswap Foundation has outsourced incentives to liquidity managers, but little analysis has been done on the success of this system.

Key Objectives

OpenBlock aims to accomplish the following objectives:

1. Data-Driven Incentive Distribution: Develop a robust model to improve liquidity mining by replacing subjective decision-making with data-driven methods for incentive distribution. This approach will ensure a more effective and sustainable rewards system for new chains.

2. Real-Time Incentive Dashboard: Build a dashboard to provide real-time visibility on the incentive expenditures of liquidity managers. This tool will enable detailed analytics of liquidity, volume, and depth earned per dollar of incentives.

3. Intelligent Recommendations: Identify specific pools and trading pathways where volume can be improved, along with real-time budget recommendations for incentivizing these pools. The key metric is improving the volume per dollar in incentives across relevant pools.

A Novel Incentive Engine for Growing Volume

The Uniswap DAO has been granted a large quantity of rewards from Arbitrum and Optimism. These two chains are showing a strong upward trend in TVL and volume during this market, which presents a unique opportunity for the DAO. If managed incorrectly, the Arbitrum and Optimism deployments can become an expensive liability, as mercenary liquidity providers will abandon the network when rewards dry up—the new pools may never reach escape velocity, and future LPs will pay the price.

OpenBlock will conduct a three-pronged analysis on the current set of both market makers (LPs) and takers (volume) on Uniswap pools. The research and analysis (Phase 1) will motivate a variety of ways for liquidity managers to consume these actionable analytics, which we outline in Phase 2. We believe a tailor-made incentive engine and systems analytics dashboard can significantly cut costs by rewarding participants through well-structured principles, rather than supporting ephemeral yield farmers.

The community has built an impressive set of liquidity analytics compared to most DAOs, but we believe mandating an external team such as ourselves can offer a novel perspective on a well-trodden problem. OpenBlock is committed to working with any pre-existing data frameworks, and iterating with other contributors to leverage insights from previous experiments. For instance, we look forward to building upon the incentive research conducted by Gauntlet and working with liquidity managers such as Gamma, xToken, and Arrakis to understand the mechanisms in which they distribute rewards.

Cost: To execute this project, OpenBlock Labs requests 200k ARB for six months. This will fund a dedicated team comprising 2-3 data scientists, 1-2 quantitative analysts, 1 frontend engineer, 1 product designer, and 1 project manager.

About OpenBlock Labs

OpenBlock Labs is an R&D firm that empowers decentralized organizations with on-chain data insights for incentive optimization. OpenBlock is backed by notable figures in the crypto space, including Foundation Capital, Electric Capital, Circle Ventures, AlleyCorp, and others.

The team has backgrounds from Stanford, a16z, Carnegie Mellon, Meta, Palantir, and other top-tier institutions; the highly technical background of our team makes us confident that OpenBlock is uniquely positioned to tackle a problem of this nature.

Specification

Phase 1: Systems Analytics Dashboard

- Identify leading pools across Arbitrum by assessing volume data and determining optimal growth points for Uniswap to win market share.

- Deploy advanced econometric methods to quantitatively project the specific impacts of incentive allocation on both

pool volume and total value locked (TVL).

- Analyze granular trading volume data to discern liquidity depth variations across pools, thereby informing liquidity managers of the most efficient incentive allocation strategies.

- Develop a data-visualized, interactive dashboard offering liquidity managers and LPs real-time pool performance metrics and precise incentive budget recommendations.

Phase 2: Execute Recommendations

- Using the results from Phase 1, derive a series of data-backed strategies aimed at increasing trading volume in identified pools by incentivizing liquidity.

- Analyze the efficacy of products like Angle Merkl and work with relevant contributors to make any necessary adjustments.

Phase 3: Continuous Optimizations

- Provide persistent incentive management support, aimed at nurturing capital-efficient, sustainable growth across new market venues.

- Institute a data-driven mechanism for regularly updating incentive strategies, designed to swiftly respond to real-time changes in market conditions and liquidity needs. This mechanism will be powered by predictive modeling, employing advanced machine learning algorithms to forecast market conditions and adjust incentive strategies accordingly.

- Implement a regimen of regular monitoring of key performance indicators and market conditions, yielding consistently updated, data-driven recommendations adaptive to market evolution and pool performance dynamics.

Final Thoughts

OpenBlock looks forward to assisting in the design of a sustainable incentive model to grow volume across Uniswap deployments, starting with Arbitrum. This grant will be a great first step towards solidifying a productive relationship for both communities. We look forward to hearing the community's thoughts, and answering any questions. Thank you for your consideration.