

The Matthew Effect of Web3

——An NFT report

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Abstract:

The Matthew effect is summarized by the adage “the rich get richer, and the poor get poorer”. This concept is applicable to the cumulative advantage of economic capital, and our research also finds it important when looking at the Web3 industry, from wallet to marketplace and to community. In terms of the Matthew effect on wallets, a larger user base leads to the economics of scale, thus the exchanges would be driving down the cost of launching new products and reducing transaction fees. Besides, more variety of products would attract customers with different goals, thus contributing more to the Matthew effect. OpenSea is one of the leading power in the NFT marketplace and its rapid growth shows Matthew’s effect in the NFT marketplace, however, there is still doubt about whether it can sustain its position. In the Web3 community build-ups, Yuga Labs takes the lead, it has its own coin Apecoin as well as values people as its potential committees.

Content:

Abstract:	1
1. Matthew Effect on wallets	3
2. Matthew Effect on NFT and its marketplace	5
a. Introduction of NFT	5
b. Introduction of OpenSea	6
c. How OpenSea Works?	6
1) creator	6
2) Buyer	7
3) Whitelist.....	7
d. The current challenge of OpenSea	9
1) Token-driven NFT community.....	9
2) Marketplace based on other public chains.....	11
3) The threat of the Augmented marketplace	11
e. Will OpenSea still be the market leader?	12
3. Yuga Labs - New area of Community	12
a. ApeCoin – Own Currency	14
b. People – Potential Community	14

1. Matthew Effect on wallets

Wallets are where we buy, trade, and hold crypto assets. Here are 2 Matthew effects how fees and products affect wallets' market share.

Matthew Effect 1: Larger user base leads to economics of scale, thus the exchanges would be driving down the cost of launching new products. Nevertheless, they could reduce transaction fee rates.

For example, Binance has a flat fee structure on all types of trades. It also follows a tiered-fee structure based on 30-day trading volume. For level 1 (VIP 0) having a trading volume of less than 50 BTC, it charges you 0.10% as a trading fee. FTX doesn't have any deposit and withdrawal fees and has no futures settlement fees. On Leveraged Tokens, the creation and redemption fee is 0.10%, and a daily management fee of 0.03%.

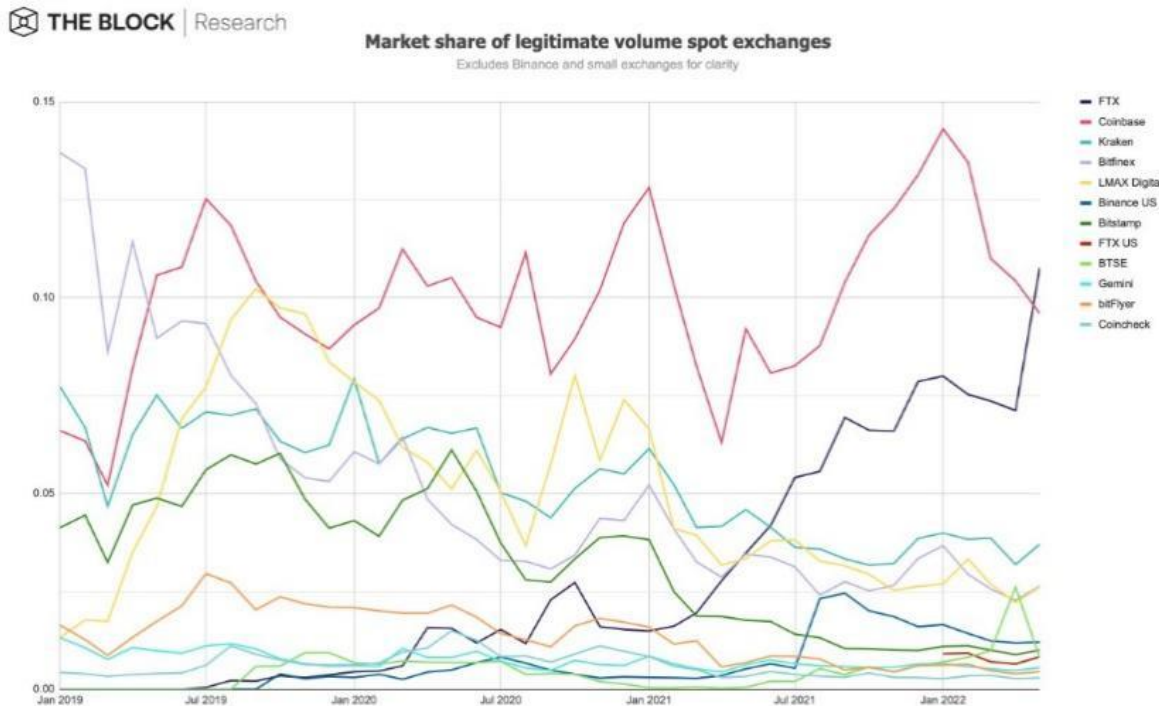
However, we should be aware that the increased competition is bringing rates closer.

Matthew Effect 2: More variety of products would attract customers with different goals.

In May 2022, crypto exchange spot volume rose to US\$830.4 bn, with FTX taking second place and overtaking Coinbase for the first time. The spot market share is as follows:

- Binance: 64.1%
- FTX: 10.8%
- Coinbase: 9.6%
- Kraken: 3.7%
- Bitfinex: 2.6%
- LMAX Digital: 2.6%

Figure: Market share of legitimate volume spot exchanges



Source: The Block

Exchanges with more products are taking more market shares. FTX is often considered as an advanced wallet to Coinbase, attracting users with various goals whether hedging risks or arbitraging. FTX supports more than 250 digital assets on its international trading platform, allowing traders to form hundreds of trading pairs. Their asset offering combines both primary and some new, less known assets, given the exchange is always adding more assets and removing non-performing ones.

Figure: FTX offers various products



Source: FTX Website

FTX also accepts "Cross Margin", which can be regarded as another version of this. This means that multiple currencies, including USD, BTC, ETH, AAVE, XRP, and dozens of others, can be counted as user deposits. This gives traders larger flexibility and convenience to leverage.

At the same time, as the exchange who leads the spot volume, Binance is the best crypto exchange globally when it comes to cryptocurrency support as it supports more coins and tokens than the majority of exchanges. Currently, there are over 500 digital assets on their global platform, two times of FTX's.

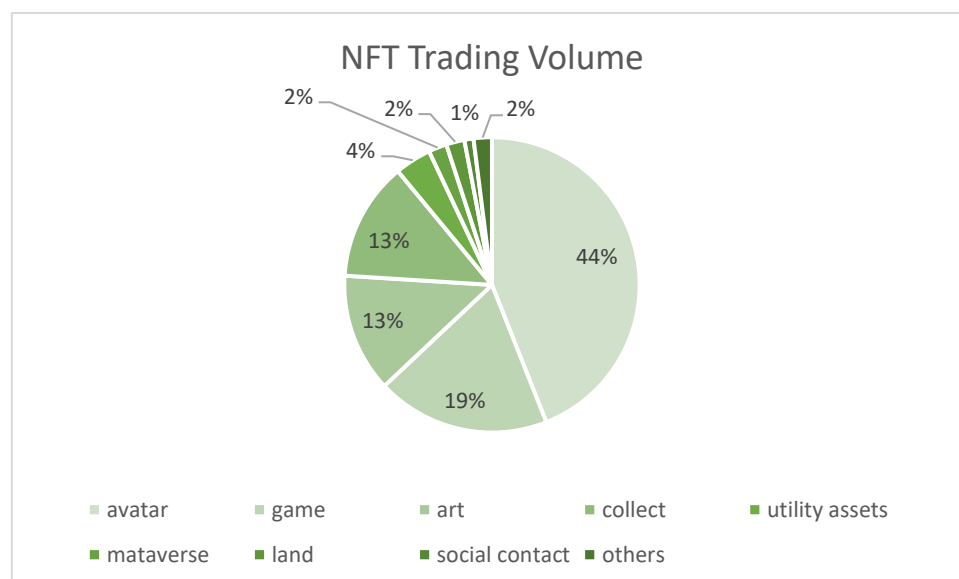
2. Matthew Effect on NFT and its marketplace

a. Introduction of NFT

NFT (Non-Fungible Token) is a token that is currently dominated by the ERC-721 standard on the Ethereum blockchain. NFTs have the following characteristics:

- 1) uniqueness (metadata can be permanently saved and cannot be changed)
- 2) scarcity (the developer decides the degree of scarcity)
- 3) indivisible (cannot be divided).

Nowadays, the market value of NFTs exceeds 10 billion US dollars, and the static avatar NFTs come out on top. NFTs can be divided into two categories, static NFTs (avatar, artworks) and dynamic NFTs (games, music). Among them, the transaction of static NFT enjoys more popularity, which corresponds to the ownership and Discord access right. According to NFTGO data, as of February 2022, the total market value of NFTs has reached 18 billion US dollars, of which avatar NFTs account for around 44%.



Source: NFTGO

The secondary market of NFT is formed after NFT is minted. The boundaries between buyers and sellers are blurred, and they are all consumers of the corresponding trading products.

It is expected that there will be abundant and high-quality products corresponding to reasonable prices. The platform which acts as a middleman is expected to provide a low transaction rate. The NFT marketplace had a cumulative trading volume of \$12.5 billion through 2021, nearly 88% of total NFT trading volume of that year, according to DappRadar. The ecosystem of NFT is relatively complete. Among all trading platforms, OpenSea has the leading power, because it monopolizes nearly 90% of the NFT market share, which shows a sign of the Matthew Effect in this field. It has a wide range of SKUs and good control over counterfeit products. However, due to the use of Ethereum, high gas costs will be incurred during peak periods and the speed is relatively slow.

b. Introduction of OpenSea

OpenSea is a marketplace where all the listed items are unique digital collectibles in the form of NFTs that users can buy, sell and mint. The Ethereum NFT transactions account for about 98% of all transactions on OpenSea. The platform is a decentralized, peer-to-peer exchange that enables users to transact with one another directly in a trustless manner. In 2021, following a heightened interest in non-fungible tokens, the company's revenue reached \$95 million in February and \$2.75 billion in September. By January 2022, the company had been valued at 13.3 billion and has been considered the largest NFT marketplace.

c. How OpenSea Works?

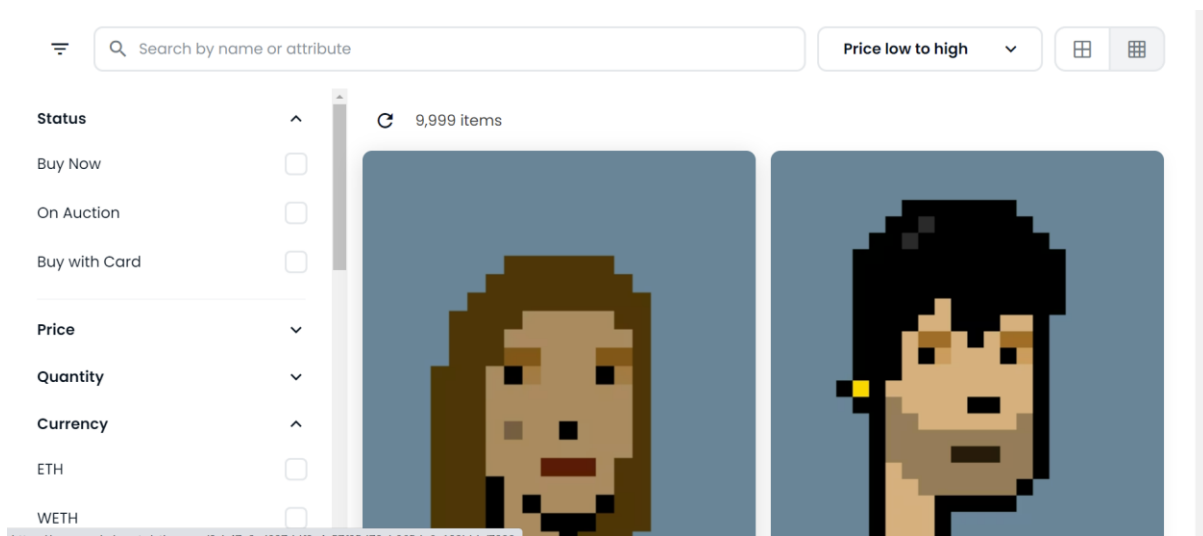
Since OpenSea is a peer-to-peer marketplace, technically, there's no intermediary between buyer and seller. Therefore, transactions are facilitated by self-executing smart contracts that guarantee fair trade and happen as a whole, which are known as atomic transactions. Still, the platform takes a 2.5% cut of every transaction.

1) creator

Everyone using OpenSea can mint NFTs for free. OpenSea only charges 2.5% if there is a settled transaction. Compared to the traditional gallery which charges nearly 50% of the transaction fee, 2.5% percentage is much lower. The "gas-free minting" model and explicit charging standard of the company reduce the users' participation threshold and encourage more novice players to get involved. Additionally, the original creator can decide the arrangement of the payment on the secondary market. They can arrange to receive a royalty payment for every secondary-market sale of the token in perpetuity. This model can not only protect the property rights of original creators but also inspire their creativity.

2) Buyer

Buyers can easily browse through NFT collections, being able to filter by price, status and native blockchain of each token. Buyers can also see the purchasing history of each NFT, including how many times it was sold, who bought it, and its prices. The buyers are much familiar with this system because it is similar to the traditional shopping platform, therefore, when they make a shift, they can quickly be adjusted.

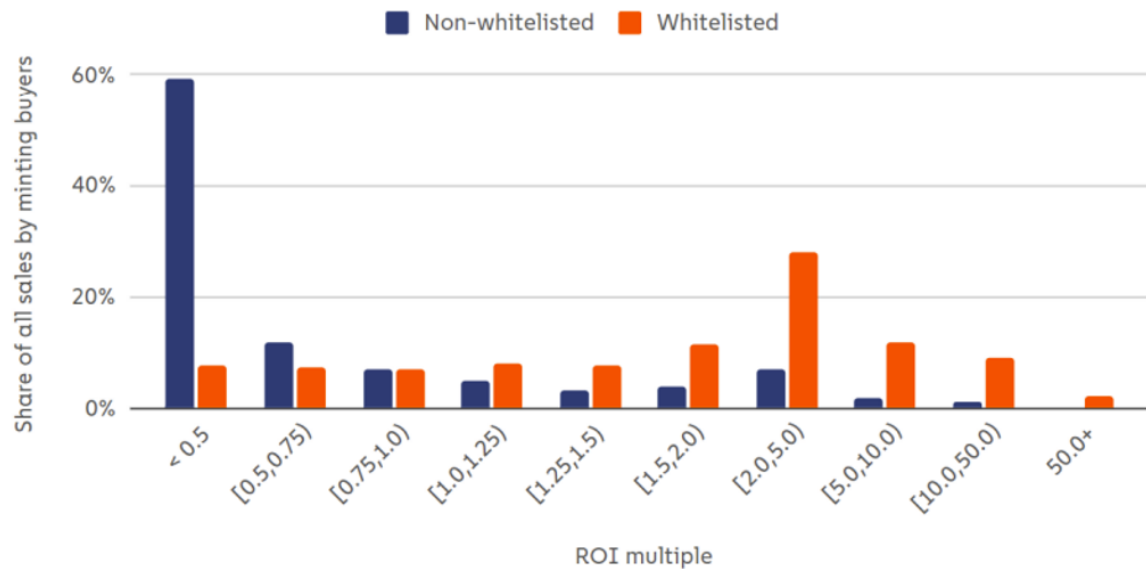


Source: OpenSea website

3) Whitelist











Whitelisting is the key to profitably trading newly issued NFTs. NFT creators set up a "whitelist" that allows some people to buy their NFTs at a much lower price than other users during the minting period. OpenSea data shows that users who join the whitelist and subsequently sell newly minted NFTs have a 75.7% chance of making a profit, compared to only 20.8% for users who are not whitelisted. According to analysis statistics, 78% of non-whitelisted buyers have lost money on resale, and 59% of them have lost more than 50%. On the other hand, 78% of whitelisted buyers have generated profits, and 51% of them have generated profits, two times or more of the return on investment.

Figure: Influence of Whitelist on Sales



Source: CICC

Compared to the existing platform, OpenSea has a relatively low buyer fee and seller fee. With its wide range of acceptable file formats and various currency support, it has established its head effect and attracted an influx of investors.

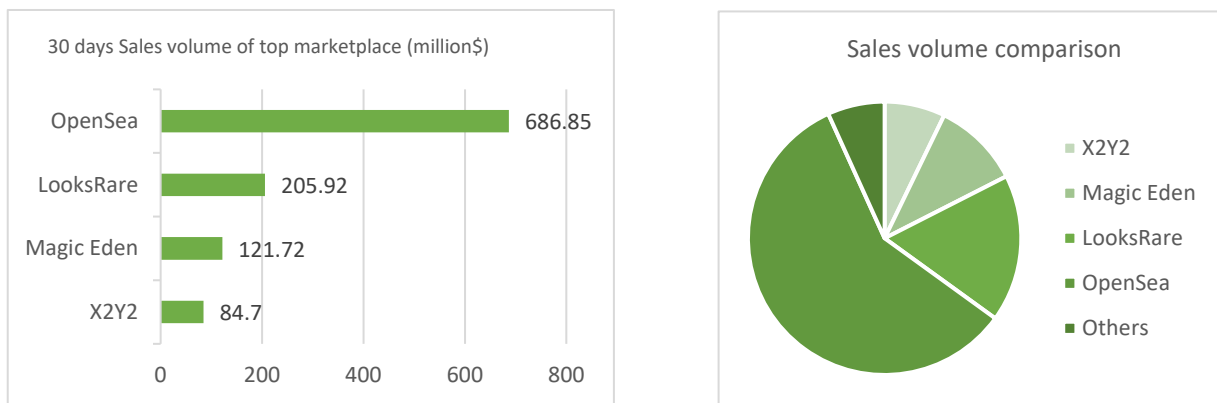
										
NAME	OPENSEA	AXIE INFINITY BY SIX MING	NBA TOP SHOT BY DAPPRADAR	RARIBLE	SUPERRARE BY SUPERRARE LABS	SORARE	FOUNDATION	AAVEGOTCHI BY LARIX	HIC ET NUNC BY TIZIO	DECENTRALAND
VOLUME (ALL TIME)	\$9.24B	\$2.62B	\$706.87M	\$230.91M	\$157.5M	\$150M*	\$93.44M	\$48.68M	\$43.93M	\$42.09M
RUNS ON (BLOCKCHAIN)	Ethereum	Ethereum	Flow Blockchain	Ethereum	Ethereum	Ethereum	Ethereum	Polygon	Tezos	Ethereum
FOUNDING DATE	2017	2018	2019	2020	2017	2018	2020	2020	2021	2017
TEAMSIZ	~48	~25	?	~50	~50	~50	~25	~4	1	~50
HQ	Newark, United States	Ho Chi Minh, Vietnam	Vancouver, Canada	Moscow, Russia	Newark, United States	Paris, France	San Francisco, United States	London, England	Brazil	Beijing, China
TRADERS	563,750	845,189	460,141	81,454	5,046	600,000*	20,054	6,993	39,870	6,320
BUYER FEES	2%	4.25%	5.26% (~\$0.30 FLAT FEE)	2.5%	3%	N/A	N/A	N/A	2.5%	N/A
SELLER FEES	2.5%	4.25%	5	2.5%	3%	N/A	15%	N/A	N/A	N/A
ACCEPTED FILE FORMATS	GLTF, GLB, WEBM, MP4, MAV, OGV, OGG, MP3, WAV, JICA	N/A	N/A	3PEG, PNG, GIF	3PEG, MP4, WEBM, GLB	N/A	3PEG, MP4	SVG	3PEG, GIF, MP4, MOV, OGV, GLTF, SVG	GLTF
ROYALTIES	ARTIST CHOICE (5% TO 10%)	N/A	N/A	ARTIST CHOICE	10% (ON SECONDARY SALES)	N/A	10% (ON SECONDARY SALES)	N/A	N/A	N/A
CURRENCIES	SETH, SWETH, SDAI	\$SLP, SDAI, SKINC	N/A	SETH, SWETH, SDAI, SBAB, SBART	SETH	SETH	SETH	\$GHST	\$XTZ	\$MANA, \$LAND
TOKEN	N/A	\$AXS	N/A	\$RARI	\$RARE	N/A	N/A	\$GHST	N/A	\$MANA
TOTAL AMOUNT OF FUNDING	\$127M	\$158M	\$636M	\$16M	\$9M	\$737M	\$200K	N/A	N/A	\$24M
NOTABLE INVESTORS	Y Combinator, Founders Fund, Coinbase Ventures, Andreessen Horowitz, Alexis Ohanian, Mark Cuban, CAA Ventures, Coatue Ventures, Ben Silbermann	Mark Cuban, Alexis Ohanian, Libertus Capital	Coatue Ventures, Andreessen Horowitz	Coinbase Ventures, CoinFund, Venrock, O1 Advisors	Samsung NEXT, Mark Cuban, Sound Ventures	Gary Vaynerchuk, Consensys Ventures LLC, Accel, Softbank Group	N/A	N/A	N/A	Digital Currency Group, Boost VC, Fabric Ventures, Genesis One Capital

*Estimated amount. Data is not from Dappradar.

Source: Dappradar

d. The current challenge of OpenSea

OpenSea currently dominates the NFT marketplace with nearly \$5 billion in sales a month and a valuation of \$13 billion, making it one of the largest unicorns in the Web3 industry. However, OpenSea has yet to achieve dominance in the NFT marketplace, which is still expanding and has a low barrier to entry. As evidenced by the competition from LooksRare earlier this year, OpenSea inevitably loses a significant portion of its market share when competitors offer attractive trading rewards to buyers. Since NFT is a two-sided market, NFT creators and marketplace are not bundled, so the same series of NFT works can be sold on multiple platforms, which is one of the main reasons why the NFT marketplace is more likely to lose market share.



Source: Dappradar

The above figures show the latest 30-day sales of mainstream platforms, from which it can be seen that OpenSea still occupies most of the market share, but the following competitors also have a lot of market share. In the following section, we will analyze the shortcomings and challenges of OpenSea.

1) Token-driven NFT community

Although a community-based marketplace incorporates a buying and go-live process, it still conforms to the Web 3.0 concept of decentralization. However, streamlined marketplaces like OpenSea are not hosted by the community and are therefore more centralized. OpenSea has also caused a bunch of dissatisfaction among OpenSea users due to its insistence on not issuing tokens. This year LooksRare fully recognized the important role played by the community and thus adopted a more community-friendly approach to token distribution and its rewards. Taking advantage of the dissatisfaction of OpenSea users, LooksRare once surpassed OpenSea in sales in January and February and came first, which also proves the importance of community for an NFT marketplace.

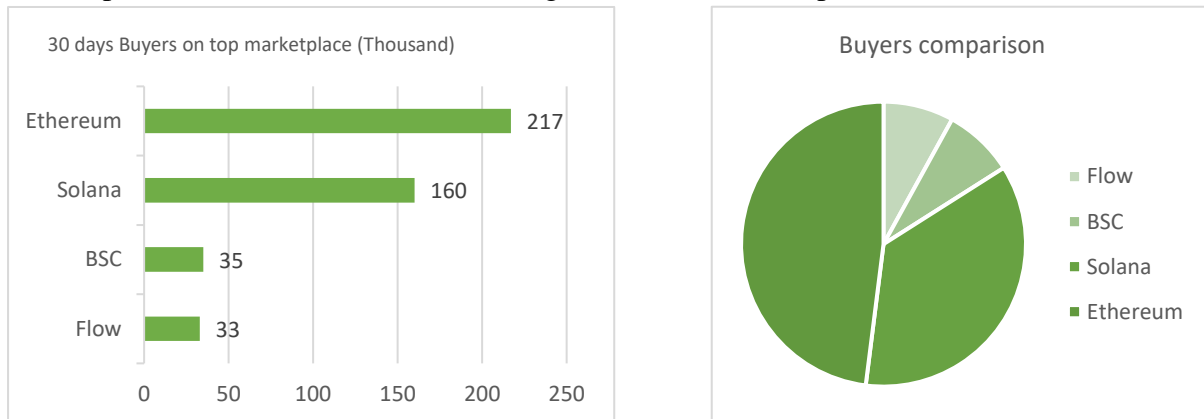


Source : www.tokenizedhq.com

LooksRare's platform token is LOOKS and its token distribution is 63% credit rewards (44.1% Trading Reward, 18.9% Staking Rewards), 12% Airdrop, 10% Ecosystem Dev. (Treasury), 10% Founding Team and 1.7% Liquidity Mgmt. LooksRare gives users a variety of ways to earn from the LooksRare marketplace, including pledging, participating in NFT trading, mining, and locking up tokens, all of which can earn a share of the transaction fee. LooksRare enhances its ability to capture value by issuing tokens to buyers in the form of LOOKS, which are included in the transaction fee sharing, stimulate long-term customer ownership and enhance user stickiness.

2) Marketplace based on other public chains

ETH has always been the public chain of choice for the NFT marketplace, and OpenSea's success is mainly due to its deep commitment to ETH. However, the recent rise of Solana public chain has sounded a warning bell for ETH and OpenSea.



As we can see from the chart, Solana is one of the major public chains that has largely eroded the market share of ETH, and the main reason why Solana has been able to steal the share from ETH is its high performance and low price. Compared with ETH and Bitcoin, Solana can execute 65,000 transactions per second, thus bringing customers a faster service experience. Therefore, Solana-based NFT is able to take over the sinking market of ETH public chain NFT, which further lowers the purchase threshold of NFT and enables more players to join the array of NFT. The success of Eden, a marketplace based entirely on the Solana public chain, has perfectly blocked major streamlined marketplace like OpenSea's entry into Solana public chain to some extent. At present, the ecosystem of the Solana public chain is still developing rapidly, and it no longer imitates ETH, but gradually forms its own personalized products and generates unique ecological properties. It is believed that in time, the marketplace on Solana public chain can bring a big enough threat to ETH public chain and OpenSea.

3) The threat of the Augmented marketplace

As the number of NFT users explodes, the demand for NFTs becomes progressively more granular, giving rise to more types and functions of NFTs. With each segment expanding, generic NFT trading markets (also called the streamlined marketplace) will gradually be replaced by augmented marketplaces. We have seen similar things happen in the world of web2, such as eBay's market share being divided up by several verticalized marketplaces with core

categories. OpenSea itself is a Streamlined marketplace, covering basically all areas of NFT, while the augmented marketplace focuses exclusively on a certain segment of NFT.

The main advantage of an augmented marketplace over a Streamlined marketplace, represented by OpenSea, is that it can be customized for the users of that segment to give them a unique experience on the platform. In this case, the augmented marketplace can appropriately raise the entry threshold to ensure that the quality of NFT on their marketplace can be recognized by the majority of buyers, thus reducing the loss of users and forming their own loyal user base. According to the characteristics of this part of users, it can also carry out more detailed user profile customization, so as to recommend products that can arouse their desire to buy for each user. At the same time, because the crowd is more common in a way, there will be more resonance between buyers, which is also conducive to community building.

If augmented marketplaces can do well enough in their own niche, OpenSea may have to rethink how to resist the impact of these marketplaces as the number of such platforms increases.






e. Will OpenSea still be the market leader?

As we can see from the previous analysis, OpenSea is still the most prestigious marketplace due to its early entrance into the NFT market. Currently, OpenSea is still the first choice for most people when they want to buy an NFT. However, if OpenSea wants to keep its dominance, it has to make some changes such as value the sinking market more, try to cooperate with more public chains, and publish subsidiary marketplaces to target buyers in specific themes.

3. Yuga Labs - New area of Community

Launched in April 2021 and created by Yuga Labs, Bored Ape Yacht Club (BAYC) features 10,000 unique Apes residing on the Ethereum blockchain. The Apes grant people with membership in the community and each of these unique digital collectibles features a different rarity.

BAYC is like a “blue-chip” project with a trading volume of 623.9k ETH (equivalent to 742mn USD) on OpenSea alone by 29/6/2022. This makes it the second-highest grossing NFT collection on OpenSea behind Cryptopunks. Meanwhile, Cryptopunks and Meetbits have both been acquired by Yuga Labs, which is also the creator of the BAYC NFT collection, in late March of 2022 when Yuga Labs announced a \$450 million funding.

Collection	Volume	24h %	7d %	Floor Price	Owners	Items
1  CryptoPunks	‡ 943,189.12	+0.70%	-73.52%	---	3.5K	10.0K
2  Bored Ape Yacht Club	‡ 623,892.67	-50.91%	-37.20%	‡ 90.99	6.4K	10.0K
3  Mutant Ape Yacht Club	‡ 424,895.02	+41.98%	-8.93%	‡ 18	13.1K	19.4K
4  Otherdeed for Otherside	‡ 310,402.44	-44.17%	+11.88%	‡ 2.72	34.4K	100.0K
5  Art Blocks Curated	‡ 259,573.55	+49.18%	-17.70%	---	11.6K	57.1K

Collection	Volume	24h %	7d %	Owners	Items
CryptoPunks	943.2 ETH	+0.7%	-73.52%	3.5K	10.0K
BAYC	623.9 ETH	-50.9%	-37.2%	6.4K	10.0K
MAYC	424.9 ETH	+42.0%	-8.9%	13.1K	19.4K
Otherdeed for Otherside	310.4 ETH	-44.2%	+11.9%	34.4K	100.0K
Art Blocks Curated	259.6 ETH	+49.2%	-17.7%	11.6K	57.1K

Source: OpenSea, as of 29/6/2022

The funding and acquisition are big steps forward for Yuga Labs, as it not only brought the company's valuation to \$4 billion, but also implies the BAYC owners intend to expand into the gaming industry and the metaverse to build a media empire.

With the support of such a major role in the NFT market, BAYC committees may create more commercialization opportunities based on new IPs, such as those from Cryptopunks and Meetbits. Besides this, BAYC has an incredibly vibrant and growing community for the following reasons:



Source: Cointelegraph

a. ApeCoin – Own Currency

As a utility token of the APE ecosystem, ApeCoin is administered by a decentralized autonomous organization, aka DAO. Anyone holding the coin is allowed to cast their vote on the relevant governance decisions.

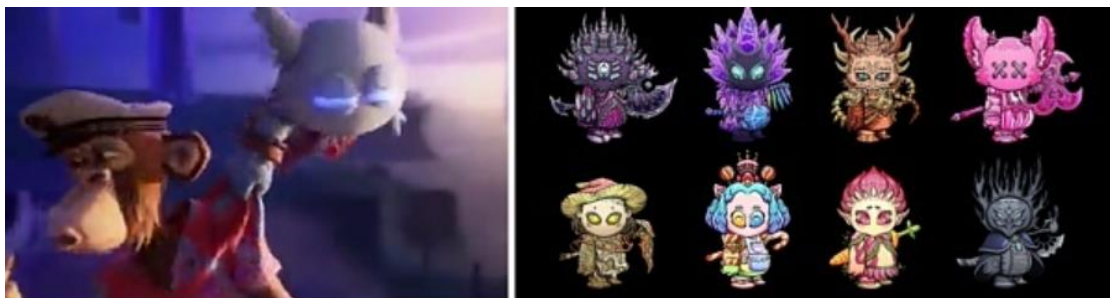
ApeCoin is accepted by NFT merchants, and holders with the BAYC receive free APE that they can immediately cash. This also implies an identity in the ecosystem, enabling holders to access exclusive features of the ecosystem, such as games, events, merchandise and services, which turn out to consolidate trades within the community and strengthen the bonding.

ApeCoin is showed its relative strength in the recent cryptocurrency shock. As of June 30th, ApeCoin ranks 26th among all cryptocurrencies, with more sales than buy (80% VS 20%) and a market cap of 1.4 billion USD. Noticeably, ApeCoin achieved such performance even if committees have decided to stay within Ethereum even if ETH gas fuel expense soared. This decision gives ApeCoin a strong security model though.

b. People – Potential Community

In early May, for example, all buyers of the 55,000 parcels of “virtual land” sold on the Ethereum blockchain can receive an Otherdeed NFT from Yuga Labs. This authenticates that buyer’s ownership of a patch of digital real estate in developer Yuga Labs’ new Otherside game environment, as a reward for paying \$6000 to buy the virtual land. This undoubtedly widens the community value which adds asset value to BAYC.

Benefits for committees have been keeping up as well. For instance, with the launch of the Otherside project, 30k out of 100k NFTs available for listing are distributed free to BAYC and MAYC holders. The NFT is called Koda, the 3D characteristic of which differs from NFTs in the past. This shows that Yuga Labs has an intention and take the initiative to lead fashion in the NFT market; the spillover effect turns out to be advantageous to BAYC as well.



Source: blockcast.it

To protect the committees, BAYC also sacrifices in June 2022. Their ability to mint an infinite number of BAYC NFTs has been canceled by Yuga Labs, in case new Apes flood the market due to its hack vulnerability. They lower the possibility of any committee's NFT being stolen, which relieves the committees a lot.

All of these explain why Yuga Labs is the largest player earning for a large Web3.0 community. So, it is not weird that OpenSea CFO Brian Roberts, football star Neymar, Justin Bieber, Musk, Jay Chou, Goldman Sachs executives, and other celebrities have all announced their holdings of BAYC.