Crypto Trend

First DeFi, Then NFTs, Now DAOs, the Next Big Chapter of Crypto Is Already Here

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Dec 2,2021

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From: NANSEN

> *"DAOs are setting a precedent for a revolutionary governance model that will potentially replace all forms of businesses, governments and human organizations."*

First DeFi, then NFTs, now DAOs.

If you are reading this, you are very, very early. We believe that the 169 DAOs (according to DeepDAO) that exist today are just one drop in the ocean of what is emerging as the next chapter in crypto. These DAOs are setting a precedent for a revolutionary governance model that will potentially replace all forms of businesses, governments and human organizations.

What is a DAO?
DAO stands for Decentralized Autonomous Organization and refers to crypto-native groups that form around a common purpose which often – but not always – involves them pooling capital to invest in accordance to a specific objective/mandate.
Use cases for DAOs are endless and still evolving. They can range from purely social platforms like token-gated Discord servers (i.e. Friends With Benefits, in which a16z recently invested) to purely investment driven platforms such as MetaCartel Ventures. PleasrDAO is another interesting example; a mixture of social and art collecting, with the mandate to acquire over time culturally significant pieces of digital art. Below is a market map showing the 2021 DAO landscape.

2021 DAO Landscape, curated by Coin 98 Analytics

Given the variety of use cases and the pace at which new DAOs are emerging, market participants and observers still struggle to make sense of what DAOs truly are.
That' s why we thought it would be useful to shed some light on the fundamentals of DAOs, show how they are different from traditional organizations and provide guidance on how to get exposure to this revolutionary wave.

The DAO governance model explained
The simplest way to explain DAOs is to start with the acronym. Firstly, DAOs are autonomous, meaning that they are organizations that are run by smart contracts. These smart contracts are self-executing lines of codes that have been agreed upon by initial developers of the DAO and stored on the blockchain. They make the organization self-sustainable when it comes to hiring, distributing rewards, and other bureaucratic or important questions you typically find in organizations.

Secondly, unlike in traditional organizations, decisions are made collectively and not by CEOs or senior management. Effectively, depending on the DAO, members who own one or a predetermined amount of the DAO' s native tokens can submit and vote on changes to smart contracts, propose initiatives, investment ideas, and more, thus allowing the DAO to evolve and grow. It is important to note that the entry modalities, economic rights and governance rights that a member is entitled to vary according to the DAO.

Membership in a DAO takes the form of an ownership of tokens native to the DAO. The amount of tokens required to join differs across DAOs. One can either purchase the tokens on launch date, after launch date or receive these tokens for contribution, again depending on the DAO. Although DAOs are generally known for being open to all, smaller DAOs are more permissioned than larger protocol DAOs. In that case, ownership of tokens is not enough to join, and a written application as well as invitation by other members are required. After joining the DAO, owning the DAO' s native tokens provides different benefits that range from voting rights to receiving a share of the profit generated by the organization. Members also benefit from the overall appreciation of the token when increased demand for this token is met by a hard supply cap.

Generally, in large protocol DAOs that are financial services platforms (e.g. multichain platform like BitDAO or a lending platform such as Compound), token ownership unlocks voting power on questions relating to fees and distribution matters. Members mostly receive rewards for staking their tokens and providing liquidity to the protocol. In other cases of large DAOs, governance tokens may provide even further governance rights but hold no intrinsic monetary value. For instance, this is the case for AaveGotchi' s native token GHST.

In smaller DAOs (500 members and below), membership typically involves working for the DAO. Beyond voting rights, members receive tokens, token paybacks, a pre-determined share of the treasury and/or cryptocurrency like Ether, Dai and Cash in exchange for their contribution. This is the case notably for investment DAOs (e.g. The LAO, MetaCartel Ventures) and collector DAOs (e.g. PleasrDAO). Some of these, like MetaCartel Ventures, also require members to continuously participate in managerial responsibilities, due diligence, proposals and votes on investments if they want to remain in the DAO.

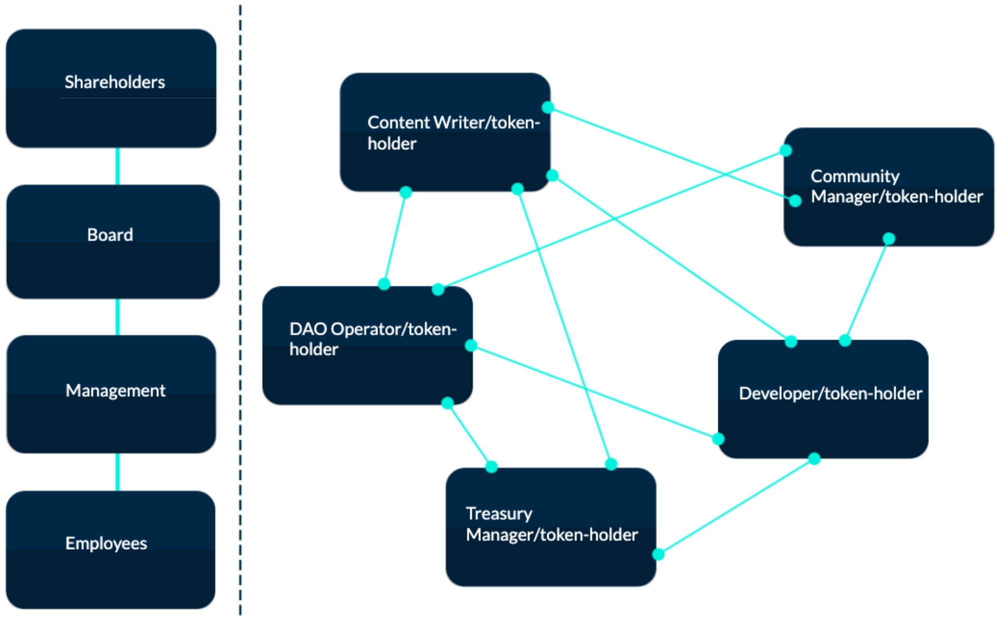
Once a member, you are also entitled to voting power which differs greatly across DAOs. The minimum requirement to vote could be holding one of the DAO’ s native tokens, a predetermined amount of tokens or a threshold of the total supply (e.g. 1% in Nouns DAO). Once proposals have been made and voted on, the quorums that are needed to validate the proposal also vary, with for example 10% quorum, 20% quorum, 50% quorum (e.g. in The LAO) etc.

How is the DAO model a paradigm shift in human organization?

This model is revolutionary and constitutes a paradigm shift in human organization in two ways.

First of all, for the first time in history, internet users can create and exchange value collectively in a trusted environment. This environment is the blockchain. Blockchain technology first powered DeFi, then non-fungible tokens and is now creating a space for groups of people to work collectively. Effectively, it eliminates the need to involve a third party in financial transactions, since all financial transactions and rules are recorded on the blockchain. This makes DAOs independent of governmental authorities because the blockchain is the third party.

Second of all, unlike other forms of organizations, there is a stronger alignment of incentives in DAOs. Members are incentivized by voting power that might in turn affect fees and rewards they receive, but also by the fact that they can receive shares of the profit generated, through tokens, token buy backs or cryptocurrency. Since the inception of traditional Web2 platforms, most of the value created by users has been seized by the platforms and more specifically their founders/CEOs. In the new framework that DAOs are setting, other members now capture a part of the value created. The way this then translates concretely depends on the specificities of economic and voting rights in each DAO. Overall, this alignment of stakes supposedly incentivizes each member to contribute at best and makes the organization more productive.



Simplified corporate relationships in traditional organizations and in DAOs

Potential limits to the model

However, the very same characteristics that make DAOs fundamentally superior to traditional organizations can also be a source of vulnerability. The blockchain technology it relies on makes it trustless and transparent but also makes its code accessible to all, including potential hackers. A perfect example of that would be The DAO hack of 2016, during which a hacker exploited a bug in the code.

Likewise, the fact that a DAO cannot be shut down by an authority or government because it relies on the blockchain as a third party may soon increasingly attract the attention of regulatory entities.

In addition to this, its lack of verticality makes decision-making long. We nonetheless see the emergence of proxy voting in DAOs, which could make governance more efficient and effective. More generally, the structures of DAOs will be increasingly multifaceted with representation, sub teams and specialized executives.

In reality, the DAO model inherently presents limits and will not be suited for all types of organizations. Although we do not know to what extent it will disrupt all forms of human coordination, one thing is certain – we will see more and more DAOs emerge, and fast.
Getting exposure to this revolutionary wave

You now understand the underlying model of DAOs and are already keen to have exposure to this emerging trend. You may be wondering: how do I get involved? The quick answer is to join a DAO by acquiring its native token. Depending on the DAO, you must either purchase one or several, on launch date or later in time, and certain DAOs even give away tokens to active contributors. However, some DAOs will be a success while others will not perform well.

It is therefore important to perform due diligence on the project, quality of the membership and analyze how value is/could be driven in the DAO before getting involved. Although the space is still relatively new and there aren' t established indexes to evaluate DAOs yet, we provide below some of the factors that drive quality membership and the value in a DAO.

Drivers of the value in a DAO

Effective incentive mechanisms in place

It is important to understand how members are rewarded for their contribution in the DAO. Typically, governance rights, rewards for contribution or shares of profit made act as incentives for members to work for the DAO and actively contribute in governance. This in turn makes the organization more efficient.

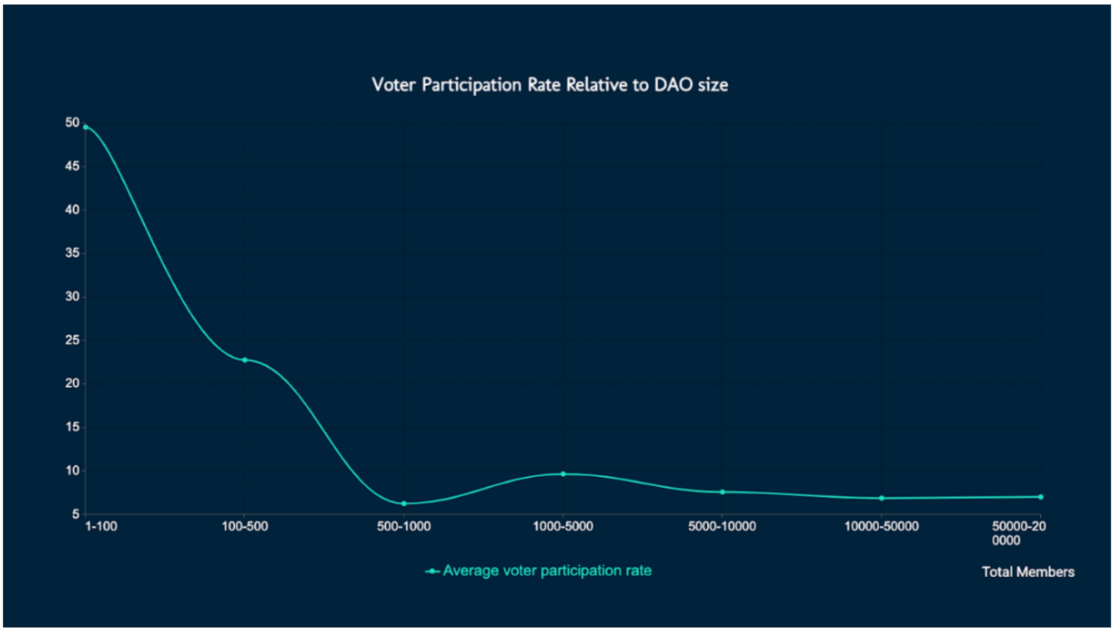
Another way to look at it is that tokens have a secondary market value that increases when the DAO becomes more successful. If a DAO becomes increasingly successful, it will attract attention from other market observers wanting to capture the upside of the DAO' s creative/monetary output, voting rights on the treasury and more. Hence, the DAO' s token appreciates. When the token appreciates, members are incentivized to work more and thus continue driving the DAO' s success and the token' s value.

We can therefore expect that in the long term, DAOs in which there is an alignment of incentives for contributors could perform better than other DAOs. The more the members can be rewarded as a function of their work/contribution, the more the value in a DAO will be driven to great heights.

High voter participation rate

The value in the DAO is not only driven by the work of each member but also by an active participation in governance which allows the organization to continuously adapt and grow. Having voting rights doesn' t necessarily mean that members will vote. You can gauge the level of engagement of members in decision-making by considering the voter participation rate for all proposals submitted. You can find this data on DeepDAO.

The smaller the size of the DAO, the more this metric is relevant. You can notice below that the largest DAOs are generally the ones with the lower rates of participation. The reason behind this is that they are predominantly large Protocol DAOs, in which collective decision-making is restricted to marginal questions for now.



Voter participation rate relative to DAO size

This was the overall voter participation rate, but you can look more specifically at the main contributors in the DAO by identifying the addresses that have received the largest amount of tokens from the treasury. This indicates which members have been rewarded the most for their contribution.

Top Balances

in 11min

Name	Balance	% Ownership	Change 7D	Change 30D	Received	Sent
Token Millionaire	3,922,760	39%	0	-187,929	6,803,406	2,880,646
Token Millionaire	2,887,717	29%	0	0	5,892,717	3,005,000
fwb.eth	390,832	3.91%	0	0	390,832	0
FWB Member	190,165	1.9%	0	0	190,165	0
0x393…b6c9e	187,929	1.88%	0	187,929	4,880,646	4,692,717
gaybrick.eth	107,594	1.08%	0	0	109,661	2,067
Medium Dex Trader	101,627	1.02%	0	0	101,627	0
FWB Member	73,333	0.73%	0	0	73,333	0
Dex Trader	63,327	0.63%	0	0	63,327	0
Uniswap v2 Pool: FWB-WETH	49,257	0.49%	2,718	-70,933	15,584,383	15,535,127
Medium Dex Trader	43,183	0.43%	0	0	43,183	0
cristi.eth	42,012	0.42%	0	0	45,012	3,000
Medium Dex Trader	35,718	0.36%	0	0	35,718	0
Medium Dex Trader	33,000	0.33%	0	0	33,000	0
Cold Feet	31,432	0.31%	0	0	31,432	0

Showing 1 to 15 of 1000

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Top balances for the FwB token

You might want to also see if they include notable figures of the DAO space. This would suggest that the DAO has gained traction from experts in the space. A few names below:

Rank		#DAOs	#Proposals	#Votes	Participation score	TOP TOKENS
1	**Ven Gist** Design Thinking & Execution re: Blockchains IRL	27	32	219	0	
2	**scottrepreneur**	24	34	68	0	
3	**Peter 'pet3rpan'** MetaCartel.	22	114	171	0	
4	**Deke** Pokemol/daohaus/metacartel/RaidGuild	18	38	98	0	
5	**Coopahtroopa** Chance favors the connected mind	17	23	121	0	
6	**Bill Warren** Co-founder of Pool-Party	16	38	48	0	
7	**Griff Green** Supporting #blockchain4good projects	16	5	19	0	

Top 7 notable contributors in the DAO space

Consistent delivery of projects

If there is a good incentive mechanism in place and members actively contribute then the DAO should be consistently delivering projects and initiatives. A DAO that regularly pushes through projects is generally a good indicator of collective engagement, ability to execute and potential for long term value appreciation.

A perfect example of this is PleasrDAO. Since it first purchased the Uniswap V3 NFT last March, the DAO bought and fractionalized the Doge Meme NFT, acquired a Wu Tang Clan CD and even organized an exclusive event for its members in New York.

Consistent delivery in turn drives the value of the DAO' s token, increases the incentives to join the DAO, stimulates engagement and feeds back into effective delivery again.

Conclusion

In conclusion, DAOs are marking a new chapter in the history of crypto. Although we do not know to what extent it will disrupt all forms of human organizations, the DAO governance model has proven particularly successful for crypto-native communities. It should surpass traditional organizations in that it enables internet users to create and exchange value collectively in a trusted environment, and rewards them for the value they create. While this new governance model inherently faces challenges such as vulnerability to attacks, it will continue to flourish. Today, there are only 169 DAOs. One day, there will be tens of thousands of them. Now is a better time than ever to join the revolutionary wave and get involved in one or several of these DAOs. These are only early experimentations but are already marking the history of crypto and perhaps the history of humankind too.