

How Web 2 is Adapting to Web 3

Andrew Zhu¹ and Tom Hafen[#]

¹Watchung Hills Regional High School

[#]Advisor

ABSTRACT

Marketing has consistently helped companies reach and engage their specific audiences over the past few decades, but it is now beginning to evolve. With web 3 technology, consumers of a product are able to become involved with a company in ways never seen before. Through leveraging the use of communities and rewards programs, web 3 is catalyzing the new age of customer loyalty. Consumers now have incentives to help a company succeed and will do certain things like promote a product in order to accomplish this. As younger generations begin to value their digital identity more and more, web 3 allows companies to cater to the new age of the internet: one where the users are in control. In this article, the main ideas of how companies can get into web 3 and why web 3 marketing is unique are discussed.

Introduction

Web 2 is growing old. It's where giant corporations control things such as user data and the ability to censor people online. With web 3, the users have the power. It's the next phase of the internet where people are rewarded for using applications and it's more secure and accessible than the current internet because of its use of blockchains. A blockchain is a shared database spread throughout the nodes of a computer network (Hayes, 2022). Although many use cases of web 3 are currently speculative as people attempt to evolve and build on existing technology, one of them has been shown not to be speculative: marketing. As web 2 companies learn how to market to consumers with web 3, a whole different sense of customer loyalty and brand image can be established by making customers feel like they are part of the brand.

What is a NFT?

A NFT (Non Fungible Token) is a digital asset stored on a blockchain that can be used by anyone to represent ownership of that asset and prove its authenticity, because blockchain data is public. Anyone can see the history of who created or transferred a specific NFT. NFTs can be sent to others, updated at any time, and traded on marketplaces for money. They are special in the way that they allow digital assets to have a new type of use case. For example, if an artist wants to sell a digital drawing they made, it would be very hard to find buyers as both the buyer and other people can download the same image making it virtually impossible to distinguish who actually owns it. However by turning the drawing into a NFT, the drawing has now become a digital asset that is owned by only one person and if someone were to buy it, they would verifiably own the image with the blockchain being able to back it up. Some might argue that still anyone can download the image but even in the case of physical art, anyone can print out or recreate the Mona Lisa but only the original has value.

NFTs can also be used to prove ownership of physical assets. If someone were to say they owned a high-value asset like a Lamborghini car, it would be hard to prove it. A picture or video of them driving it would not be able to achieve this as there is no proof it is their car. A NFT issued by Lamborghini however would easily show that the person actually owns a Lamborghini and this is evident through their wallet (a digital application that stores

someone's crypto assets) which by design, anyone can view on the blockchain. All someone would have to do is view the person's wallet and see the NFT issued by Lamborghini for proof of ownership.

Another example of a use case for NFTs is with royalties on secondary sales. If an artist sells a piece for \$100 and then the person who bought the piece sells it for \$5 million, in the traditional art market the original artist would receive nothing from that \$5 million sale. But in NFTs, artists can set royalties so that for every sale that occurs past the initial one, they will still receive money.

But NFTs are not just confined to digital art. The main way NFTs have been utilized so far is through profile pictures. People aspiring to start NFT projects will create collections of thousands of various images along a certain theme like apes, each unique from the rest, with the goal of raising money to build a brand. These project creators sell the NFTs that they made, usually capped to a limited amount under 10,000, and then plan on executing a roadmap (what's to come in the future for owning that NFT).



Figure 1: Bored Ape Yacht Club #6388, taken from <https://opensea.io/>

Profile pictures are effective because it creates a community of people using their NFTs as their profile pictures online, which can be seen throughout social media. It forms an exclusive club while also working to get the project's name in front of more viewers. Communities like Bored Ape Yacht Club have gathered the attention of many people worldwide, notably celebrities like Eminem, Neymar Jr, and Stephen Curry.



Figure 2: Justin Bieber posting his Bored Ape Yacht Club NFT on Instagram, taken from <https://www.instagram.com/p/CcinofKJZAZ/>

Bored Ape Yacht Club's own community does marketing for them just by showing off their NFTs. According to NFTInspect, out of the 10,000 Bored Ape Yacht Club NFTs, around 5,600 of those are currently being used as profile pictures on twitter. These are people who represent the brand without any real incentive from the brand, which shows the potential of marketing in web 3.

People with Bored Ape Yacht Club profile pictures have also come to be known as some of the most respected people within NFTs due to the high price of a Bored Ape (\$134,000 at the time of writing). But the value of these NFTs does not just come from the art. It is driven by the idea of utility: what does owning this NFT get a person? People with Bored Apes are invited to an annual festival called Ape Fest held in New York. They also get access to any projects that Bored Ape Yacht Club's parent company, Yuga Labs, is building. One of these being The Otherside metaverse. All holders of Bored Apes were roughly given around 10,000 Ape Coin tokens (currency to be used in The Otherside) for free which were valued at ~\$140,000 at the time of the airdrop (a method where people of certain eligibility are able to receive tokens at no cost). Owning a Bored Ape has proven to be more than just a piece of art, but rather a bet on some of the most talented builders in the web 3 space. With NFTs, digital assets and communities can be utilized in ways never seen before; companies plan on capitalizing on this technology through web 3.

What is Web 3?

While web 2 is controlled by major companies, web 3 gives power to the users through decentralization. It's the home of different blockchains like Bitcoin and Ethereum that allow people to process transactions without any centralized source controlling them. Every user owns their wallet and no one can stop them from making transactions. Whereas web 1 embodied the idea of reading through things like blogs and search engines and web 2 introduced the ability to write and create content through things like social media, web 3 combines the two and adds the concept of ownership. Modern day social media companies profit from advertisements targeted to their users. A web 3 social media company however, may choose to pay its users a share of the ad revenue to encourage the use of the app. An example of a successful web 3 company is Looks Rare, a NFT marketplace that appeared as a competitor to Opensea (current largest NFT marketplace). Whereas the 2.5% transaction fee per sale on Opensea goes entirely to the company, the 2% transaction fee on Looks Rare goes to the users of the platform. It all started with an airdrop in January. Based on a person's NFT trading volume in terms of ethereum (NFTs are transacted through cryptocurrencies like ethereum, not USD), they would receive a certain amount of \$LOOKS tokens for free. These tokens acted almost like shares of the company that were given out to active NFT traders at the time. People could have sold these tokens and pocketed the free money or they could have done something else known in crypto such as staking. Staking is where a user loses control over their crypto by sending it to a staking wallet but they receive an incentive to do so. The goal of this is to contribute to the network and also make it harder to sell the tokens as it requires them to unstake first before selling. For Looks Rare, the incentive for staking was that only stakers were able to receive a share of the money collected from the 2% transaction fee everyday. This encourages people to use Looks Rare marketplace for the lower transaction fee and the fact that they are getting paid to use the platform as long as they staked the tokens they received. It might seem unreasonable for a company to basically give away shares of their company and revenue but this is the whole idea behind web 3. The users own the platforms they use and everyone benefits.

Why Web 2 Wants Web 3

As technology advances, companies want to be able to incorporate that technology into their products. Web 3 is currently very isolated. It's a tight-knit community of builders and supporters that connect with each other through Twitter and Discord. Within this, there are two main groups: crypto and NFTs. This is a new market segment that has lots of potential for growth. People in web 3 are predominantly millennials with high incomes that allow them to invest in these asset classes. If these companies do not adapt, they risk falling behind their competitors. One company

that has done a particularly good job of adapting to web 3 is the NBA. They partnered with blockchain company Dapper Labs to build the platform NBA Top Shot. It specialized in selling short video clips in the form of NFTs from NBA games known as “moments”. For example, a moment could be LeBron James shooting a game winning three pointer. Whereas the NBA also makes money through licensing to physical sports card companies like Panini, by turning to NFTs they have been able to reach a larger audience worldwide by going online. Collecting moments on NBA Top Shot allows collectors to be more engaged with the NBA, creating the next level of fandom. Top Shot has run multiple marketing stunts such as #NBATopShotThis where users would tweet live clips from NBA games in hopes that NBA TopShot would turn the clip into a NFT which is why they adopted the phrase “Witness History, Own the Plays.” This would not be possible without web 3 as NFTs allow for the verifiable ownership of these digital video clips and provide the underlying technology for things like marketplaces and token-gated access (Ex: if someone owns a certain NFT, they get exclusive access at a NBA game).

How Companies Get into Web 3

There are many paths to successfully approaching the web 3 space. Whereas some attempts may make it seem like the company is trying to extract value from the community, other attempts show web 3 natives that the company is truly here to build. This is mainly done by gaining trust through some of the following methods.

ENS Domains

An ENS (Ethereum Name Service) domain has come to represent someone's web 3 identity. This service, started in 2017, was one of the first ethereum NFTs and is unlike most other NFTs. It specializes in selling domains, similar to how .com or .org domains currently work. Users can pay to register any domain on their website and then use the domain as a substitute to their wallet address. Whereas a normal ethereum wallet address looks something like *0x1e9FfEEAE75C4CD3aab24bC70885BaD20946751E*, an ENS domain would replace it with *alice.eth*. ENS domains allow for the simplicity of sending payments and are also used now as a way to show off online. These domains end with .eth and are unique so that two people cannot register the same domain. Some of the highest selling ETH domains are the ones of companies. Notably domains like *apple.eth* sold for 51 ETH 3 years ago, and *nike.eth* sold for 60 ETH. It is a viable strategy for a company looking to get into web 3 to first buy their own company's ENS domain. Some companies that have already done this are Budweiser which purchased *beer.eth* for 30 ETH in August of 2021 and Nike which purchased *dotswooosh.eth* for 19.72 ETH in May of 2022. By doing this, the community considers them to own their “web 3 identity” and are more likely to support the brand in their web 3 ventures.

Partnering with NFT Projects

This is a path that falls more in line with the ethos of web 3. There are thousands of already established NFT projects that currently exist and all harbor their own communities. These are not companies that started from web 2 but rather companies built on the premise of web 3. Some notable examples are Bored Ape Yacht Club, Doodles, and Cryptopunks. By partnering with a web 3 native company, the project is basically lending its user base of loyal supporters to also support the web 2 company. An example of this happened with Shopify, which partnered with a NFT project called Doodles. During NFT NYC, a multi-day NFT convention held every year, Shopify and Doodles teamed up to provide an in person experience for people who owned Doodles NFTs to buy a NFT from the new Doodles collection. They leveraged Shopify’s payment processing software and worked with them so that they could accept credit cards to purchase the NFTs, whereas usually, NFTs are purchased in ETH (Ethereum) currency. Because they did this, it showed that Shopify was interested in working in web 3 and it put their brand in front of some of the most active NFT collectors.

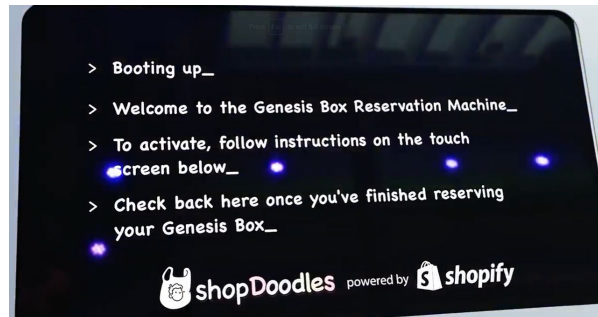


Figure 3: Doodles NFT NYC event in collaboration with Shopify, taken from <https://twitter.com/doodles>

Another example of brands partnering with web 3 companies is Puma, an apparel company, which partnered with the NFT project Gutter Cat Gang. Puma first purchased a Gutter Cat Gang NFT from the secondary market for 7.25 ETH. They also acquired their ENS domain as talked about in the above section and set it as their profile name on twitter. By doing this, they were able to successfully enter the web 3 space and get their brand known. This allowed them to later on collaborate with Gutter Cat Gang in creating custom T-Shirts for holders of their NFTs.

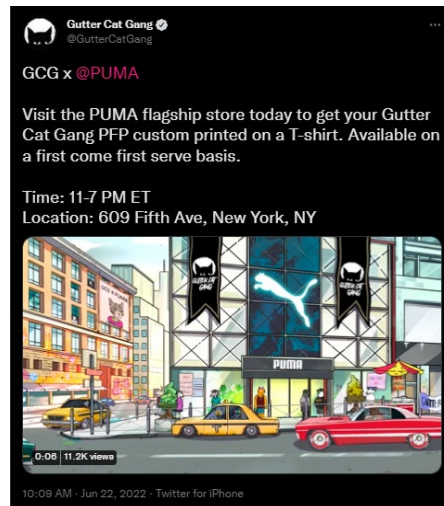


Figure 4: Puma x Gutter Cat Gang promotional tweet, taken from <https://twitter.com/GutterCatGang>

Now, Puma is still very active in web 3. They've gone on to partner with other NFT projects like CatBlox and even have decided to release their own NFT called the Puma Nitro Token which is poised to give "entry to the future of Puma." By being in web 3, they are able to create a community of supporters of their brand and reward them as such. But they are not the only clothing company looking to venture into web 3. Some other notable ones are Nike and Adidas which have also seen potential in web 3.

Acquisitions

RTFKT (pronounced "artifact") is a digital wearables and collectibles company aimed at building assets to be incorporated into the metaverse. They have created many NFTs and collaborated with well known artists such as Jeff Staple to release things like physical footwear linked to digital NFTs. In December of 2021, Nike decided to acquire RTFKT for an undisclosed amount of money. Since Nike is a large clothing company, it made sense for them to also venture into digital clothing assets. What made RTFKT so attractive was that they built a NFT collection called CloneX. CloneX is a collection of 20,000 "next-gen" avatars, made in collaboration with artist Takashi Murakami. By acquiring

RTFKT, Nike not only got access to a high quality metaverse design team but they were able to tap into a new audience. This audience is one that consists of younger generations like millennials and Gen Z who value their digital identity more than the other generations. The most valuable part of the acquisition however is the Clone X community which consists of over 10,000 people who now identify as part of the Nike brand. These are people who have now become brand advocates for Nike and they want to see Nike succeed in web 3 because it means the appreciation of their assets. This gives them an incentive to do marketing for Nike without Nike having to encourage it. Customer loyalty like this cannot be found outside of web 3 communities which is why web 3 is such a valuable target for many web 2 companies.

Conclusion

Web 3 is unlike anything the internet has seen before. It's a place full of potential that engages its users by making them feel like they are part of a movement. It pushes the boundaries of what has been known as marketing for all these years and shows that blockchain technology can be implemented to create loyal communities. Although this space is still very new and many roads have not been paved yet, the best thing about Web 3 is that there are no right or wrong answers. As long as both the companies and customers work together, the future of Web 3 is bright.

References

Bored Ape Yacht Club Ethereum NFT Collection - Inspect. (2022). NFT Inspect.

<https://www.nftinspect.xyz/collections/0xbc4ca0eda7647a8ab7c2061c2e118a18a936f13d>

Hayes, A. (2022, August 23). *Blockchain facts: What is it, how it works, and how it can be used.*

Investopedia. Retrieved August 26, 2022, from <https://www.investopedia.com/terms/b/blockchain.asp>

NIKE, Inc. (2021, December 13). *Nike Acquires RTFKT.* NIKE.

<https://about.nike.com/en/newsroom/releases/nike-acquires-rtfkt>